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CITY OF NEW ORLEANS, LOUISIANA

Basic Financial Statements

December 31, 2007

(With Independent Auditors' Report Thereon)

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date

9/24/08



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CITY OF NEW ORLEANS, LOUISIANA

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Independent Auditors' Report

The Honorable Mayor and Members
City Council of the City of New Orleans, Louisiana:

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of New Orleans, Louisiana (the City) as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the New Orleans Tourism Marketing Corporation, the Orleans Parish Communication District, the Audubon Commission, the French Market Corporation, the Upper Pontalba Building Restoration Corporation, and the Canal Street Development Corporation, which represent 12% and 18% respectively, of the assets and revenues of the aggregate discretely presented component units; the Firefighters' Pension and Relief Fund of the City of New Orleans (old and new systems), the Police Pension Fund of the City of New Orleans, and the Employees' Retirement System of the City of New Orleans, which represent 87% of the assets and 54% of the additions and revenues of the aggregate remaining fund information; and the Board of Liquidation, City Debt, which is a major fund and 13% and 10% of assets and revenues of the governmental activities, respectively. Those financial statements were audited by other auditors, whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the, the New Orleans Tourism Marketing Corporation, the Orleans Parish Communication District, the Audubon Commission, the French Market Corporation, the Upper Pontalba Building Restoration Corporation, the Canal Street Development Corporation, the Firefighters' Pension and Relief Fund of the City of New Orleans (old and new systems), the Police Pension Fund of the City of New Orleans, the Employees' Retirement System of the City of New Orleans, and the Board of Liquidation, City Debt, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of New Orleans, Louisiana, as of December 31, 2007, and the respective changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 2 to the basic financial statements, on August 29, 2005 Hurricane Katrina struck the United States' gulf coast and caused destruction across the City and the states of Louisiana, Mississippi, and Alabama. The storm and related flooding had a significant financial impact on the City in 2005 and will have continuing effects in future years as described in notes 2 and 13 to the basic financial statements.

Effective with the fiscal year beginning January 1, 2007, the City implemented Government Accounting Standards Board Statement Number 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other than Pensions* (GASB 45).

In accordance with Government Auditing Standards, we have issued our report dated June 30, 2008 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis, budgetary comparison schedule, and schedules of funding progress are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We and other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Metairie, Louisiana
June 30, 2008

CITY OF NEW ORLEANS
Management's Discussion and Analysis
December 31, 2007

Management's Discussion and Analysis

The following Management's Discussion and Analysis (MD&A) of the City of New Orleans, Louisiana's (the City), financial performance provides an overview of the City's financial activities for the fiscal year ended December 31, 2007. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the City's financial statements and the notes to the financial statements. The reader should keep in mind that many of the variances reported in the City's financial statements are a result of the City being struck by Hurricane Katrina. On August 29, 2005, Hurricane Katrina struck the United States' Gulf Coast and caused destruction across the City of New Orleans and the States of Louisiana, Mississippi, and Alabama. Hurricane Katrina's tidal surges and the resulting levee breaches left eighty percent of the City under water. Ninety percent of the City's residents left under mandatory evacuation orders. The City suffered losses to buildings, police cars, fire trucks, parks and other City owned properties and equipment. Hurricane Katrina also devastated the City's economy, primarily the tourism and convention industries, and negatively impacted tax collections. Grants from federal and state governments as well as a Community Disaster Loan (CDL) from the Federal government enabled the City to continue to serve returning citizens and begin the process of rebuilding, which continues.

Financial Highlights

- The City's total net assets on the government-wide basis totaled \$71.5 million at December 31, 2007; assets totaled \$1.8 billion.
- The Government-wide Statement of Activities reported a decrease in net assets of \$68.0 million.
- 2007 General Fund tax revenues increased by \$18.3 million compared to 2006.
- The costs associated with the implementation of Government Accounting Standards Board Statement Number 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other than Pensions* (GASB 45) were approximately \$18 million.
- The General Fund reported an excess of expenses over revenues and other financing sources of \$4.6 million for a total ending fund balance at December 31, 2007 of \$95.2 million. The General Fund undesignated fund balance at December 31, 2007 is \$38.6 million.
- Total Governmental Funds reported an excess of revenues and other financing sources over expenses of \$85.0 million.
- Total cash and investments of Governmental Funds amounted to \$466.6 million at December 31, 2007 an increase of \$88.7 million over the beginning of the year total.
- Total bonded debt amounted to \$538.5 million an increase of \$60.1 million over the beginning of the year total. The State of Louisiana authorized the City to borrow through the Gulf Opportunity Zone Program \$52.2 million to defray the cost of debt service in the General Fund. \$23.5 million was used in 2007 to pay City's debt service.

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- In November 2004, the City received approval of the taxpayers to issue \$260 million of general obligation bonds. The City issued \$75 million of this \$260 million in 2007.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information to provide greater detail of data presented in the basic financial statements.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the year ended December 31, 2007. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (e.g. earned but unused leave for vacations).

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, health and human services, culture and recreation, urban development and housing and economic development. All of the business-type activities of the City are undertaken through component units, which are presented separately.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as government activities in the government-wide financial statement. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources. Such information may be useful in evaluating government's financing requirements.

Because the focus of governmental fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's financing decisions. Both the governmental fund balance sheet and the

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governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 75 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for its seven major funds: the General Fund, the Department of Housing and Urban Development (HUD) grant fund, the Federal UDAG fund, the Federal Emergency Management Agency (FEMA) fund, the debt service fund, the capital projects fund and the Community Disaster Loan (CDL) Fund. Data from the other governmental funds are combined under the heading, 'Nonmajor Governmental Funds'.

Proprietary Funds. The City does not directly maintain proprietary funds. Proprietary activities are included within component units of the City.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information. In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information to demonstrate legal budgetary compliance for each major fund for which an annual budget is adopted and to provide information concerning the City's progress in funding its obligation to provide pension benefits to its employees.

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Management's Discussion and Analysis
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Net Assets
December 31, 2007 and 2006
(In thousands)

	Governmental Activities	
	2007	2006
Current and other assets	\$ 586,465	500,720
Capital assets	1,214,749	1,269,914
Total assets	1,801,214	1,770,634
Long-term liabilities	1,518,219	1,471,369
Other liabilities	211,466	159,709
Total liabilities	1,729,685	1,631,078
Net assets:		
Invested in capital assets, net of related debt	639,771	610,072
Restricted	97,506	61,592
Unrestricted (deficit)	(665,748)	(532,108)
Total net assets	\$ 71,529	139,556

Government-wide Financial Analysis

As noted above, net assets may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$71.5 million at December 31, 2007.

The City's Statement of Net Assets reflects its investment in capital assets, land, construction-in-progress, infrastructure, buildings, and equipment, less any related debt used to acquire those assets that is still outstanding; in the amount of \$639.8 million at December 31, 2007. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided for by other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Debt service funds have accumulated \$73.3 million at December 31, 2007 to provide for the servicing of annual interest and principal payments on bonds and are classified in restricted net assets. The unrestricted deficit net assets in the amount of \$665.7 million is due to the City's recording of long-term obligations including claims and judgments, liabilities, accrued annual and sick leave. The unrestricted deficit increased by \$145.2 million, which is primarily due to the change in net assets described below.

Governmental Activities

Governmental activities decreased the City's net assets by \$68.0 million. Total revenue increased overall by \$170.4 million or 35% from \$482.4 million in 2006 to \$652.8 million in 2007. Operating grants increased by \$56.3 million due primarily to increased FEMA funding. Capital grants increased by \$42.0 million from 2007.

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Property tax collections increased from \$127.7 million in 2006 to \$142.5 million in 2007, an increase of \$14.8 million or 11.6%. Real estate property taxes were assessed and the majority collected in the beginning of the fiscal year. As a result of Hurricane Katrina, all normal commerce ceased, and tax collections on retail activity, hotel rooms and auto sales decreased in the region, but have been increasing steadily. Sales tax collections increased by \$9.9 million or 8.0%.

Total expenses were \$720.8 million in 2007 an increased of \$168.5 million or 30.5% compared to \$552.4 million in 2006. General government expense increased \$10.0 million or 5.2% from \$193.6 million in 2006 to \$203.6 million in 2007. Public safety expense increased \$77.9 million or 44.7% from \$174.5 million in 2006 to \$252.5 million in 2007. Public works expense increased \$52.7 million from \$90.5 in 2006 to \$143.2 million in 2007 due primarily to ongoing rebuilding efforts. Finally, urban development and housing expense increased \$12.7 million or 153% from \$8.3 million in 2006 to \$21 million in 2007 as more citizens returned.

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A comparison of 2006 to 2007 is as follows (amounts are reported in thousands):

	<u>2007</u>	<u>2006</u>
Revenues:		
Program revenues:		
Charges for services	\$ 90,834	78,631
Operating grants and contributions	134,097	77,773
Capital grants and contributions	52,244	10,256
General revenues:		
Property taxes	142,480	127,659
Sales taxes	134,114	124,229
Other taxes	44,324	44,172
Investment earnings	19,580	17,862
Insurance proceeds	5,257	—
Miscellaneous	29,890	1,812
Total revenues	<u>652,820</u>	<u>482,394</u>
Expenses:		
General government	203,620	193,604
Public safety	252,474	174,530
Public works	143,211	90,511
Health and human services	18,438	13,385
Culture and recreation	12,600	9,922
Urban development and housing	21,157	8,278
Economic development	9,080	6,968
Interest and fiscal changes	60,267	55,179
Total expenses	<u>720,847</u>	<u>552,377</u>
Decrease in net assets	<u>(68,027)</u>	<u>(69,983)</u>
Net assets, beginning of year as restated	139,556	209,539
Net assets, ending	<u>\$ 71,529</u>	<u>139,556</u>

Financial Analysis of the Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of December 31, 2007, the City's governmental funds reported a combined ending fund balance of \$456.7 million, an increase of \$85.8 million when compared to the prior year. Unreserved-undesignated fund balance as of December 31, 2007 was \$55.7 million and is available for spending at the government's discretion. The unreserved-designated fund balance in the amount of \$226.7 million indicates that it is not available for new spending because it has already been designated for expenditure by the City in future years. The reserved fund balance in the amount of \$174.1 million is primarily reserved to pay debt service (\$73.3 million), for grantee loans (\$25.2 million), and to liquidate contracts and purchase orders of the prior period (\$73.5 million).

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General Fund

The General Fund is the chief operating fund of the City. At December 31, 2007, total fund balance was \$95.2 million. The fund balance of the City's General Fund decreased by \$4.6 million in 2007. Key factors relative to this change are as follows:

- Total Revenues and Other Financing Sources for the General Fund increased by \$58.2 million or 16.0% compared to 2006. As the city population began returning to pre-Katrina levels, all revenue sources experienced increases, other than licenses and permits which remained virtually the same.
- Taxes increased by \$18.3 million or 8.6% as compared to 2006. This increase is primarily due to the increased collections of sales, property, utility, and gaming taxes during the year.
- Intergovernmental increased by \$11.2 million to \$27.6 million.
- Charges for Service increased by \$3.3 million or 10.4% compared to the previous year.
- Fines and forfeits increased \$4.6 million to \$11.8 million.
- Other financing sources totaled \$31.9 million in 2007 representing a \$13.0 million or a 69% increase in comparison to 2006. The City's General Fund received a \$21.3 million debt service assistance loan from the State. CDL proceeds were recorded in a separate CDL Fund in 2006 and 2007.
- Expenditures increased in 2007 to \$425.9 million compared to \$309.6 in 2006, which represents a 37.6% increase. This \$116.3 million increase is due in largely to increased public safety expenditures and the rebuilding effort.

The accompanying table shows the amount (in thousands) of general fund revenues by source for 2007 and 2006.

Revenues and Other Financing Sources	2007 Actual	% of Total	Increase (Decrease) Over 2006	2006 Actual	% of Total
Taxes	\$ 231,529	54.96%	18,333	\$ 213,196	58.72%
Licenses and permits	55,490	13.17	(100)	55,590	15.31
Intergovernmental	27,584	6.55	11,214	16,370	4.51
Charges for services	35,080	8.33	3,314	31,766	8.75
Fines and forfeits	11,766	2.79	4,607	7,159	1.97
Interest income	13,949	3.31	1,016	12,933	3.56
Contributions, gifts, and donations	558	0.13	178	380	0.10
Miscellaneous	13,400	3.18	6,643	6,757	1.86
Other financing sources (uses) net	31,925	7.58	12,989	18,936	5.22
	<u>\$ 421,281</u>	<u>100.0%</u>	<u>58,194</u>	<u>\$ 363,087</u>	<u>100.0%</u>

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HUD Fund

This special revenue fund is used to account for funding from the Department of Housing and Urban Development (HUD). Some of the major initiatives are Community Development Block Grants (CDBG), HOME Investment Partnership Act Program (HOME), Emergency Shelter Grant (ESG) Program, and Housing Opportunities for Persons with HIV/AIDS (HOPWA). Revenue and expenditures increased \$10.5 million from \$12.6 million to \$23.1 million.

Federal UDAG Fund

The Federal UDAG special revenue fund accounts for grants received from the HUD for the purpose of providing loans to the private sector for completion of projects that will stimulate economic development activity in the City. Expenditures increased \$1.1 million from \$1.0 million in 2006 to \$2.1 million in 2007.

FEMA Fund

The FEMA Fund is a major fund, which primarily accounts for grants received as a result of Hurricane Katrina from the Federal government. FEMA, as authorized by the Stafford Act, assists individuals, as well as, state and local governments with response to and recovery from disasters. The FEMA grants are reimbursement basis grants where expenditures and related revenues have been accrued. The deficit in the FEMA fund at December 31, 2007 of \$17.4 million, results from revenue which has been deferred and will be collected by the City in 2008. Revenue amounted to \$37.7 million in 2007 while expenditures totaled \$44.2 million.

CDL Fund

The Community Disaster Loan fund accounted for \$32.7 of disaster loan proceeds, which were all used to assist in paying public safety expenses in 2007.

Debt Service Funds

The Debt Service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. Total fund balance for the Debt Service Fund was \$73.3 million at December 31, 2007, which was an \$11.7 million increase compared to the prior year balance of \$61.6 million. This increase was due primarily to an increase in tax revenue of \$4.3 million, interest revenue increase of \$2.1 million, and the receipt of \$2.2 million of GO Zone debt service assistance loan proceeds in 2007.

Capital Project Funds

The Capital Projects fund is used to account for all resources and expenditures in connection with the acquisition of capital facilities and other repair and maintenance projects, other than those accounted for in the component units. Expenditures for capital projects in 2007 totaled \$62.0 million, an increase of \$33.5 million compared to 2006. This increase is due to the resumption of the construction of projects on hold after Hurricane Katrina and new projects.

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General Fund Budgetary Highlights

Variances between the General Fund's amended budget and the actual revenues were caused generally by the return of many citizens trying to rebuild, which caused an increase in revenues. The variance between the General Fund's amended budget and the actual expenditures were due to the increase in population and the need to provide additional City services for the increased population.

	2007		Variance Favorable (Unfavorable)
	Budget	Actual	
2007 Revenues			
Taxes	\$ 204,525	231,529	27,004
Licenses and Permits	40,780	55,490	14,710
Intergovernmental	16,998	27,584	10,586
Charges for Services	39,235	35,080	(4,155)
Fines and Forfeits	9,830	11,766	1,936
Interest Income	7,399	13,949	6,550
Contributions gifts and Donations	4,068	558	(3,510)
Miscellaneous	6,068	13,400	7,332
Total Revenues	328,903	389,356	60,453
Expenditures	455,705	425,915	(29,790)
Other Financing Sources (Uses)	126,802	31,925	(94,877)
Net Change in Assets \$	0	(4,634)	(4,634)

Capital Assets

Capital assets at December 31, 2007 and 2006 are as follows (net of depreciation):

	2007	2006
Land	\$ 103,522	103,522
Construction in progress	96,309	61,030
Buildings, improvements, and equipment	95,166	125,939
Other	18,854	20,544
Infrastructure assets	900,898	930,799
	<u>\$ 1,214,749</u>	<u>1,241,834</u>

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Hurricane Katrina caused physical damage from the flooding to the City's capital assets. As a result, certain assets were destroyed and other assets, specifically buildings, require restoration efforts to restore their service utility. During 2007, additional properties were determined to be irreparable or damaged to the extent that repairs would exceed the cost of replacement. These assets have been demolished, resulting in a decrease in the category buildings, improvements, and motor vehicles.

Debt Administration

Outstanding general obligation bonds at December 31, 2007 totaled \$538.5 million, all of which are considered to be net, direct-tax supported debt. There are no special assessment bonds outstanding.

During 2007, the City issued the following bonds or certificates of indebtedness:

- \$23.6 million of State of Louisiana Go Zone Notes were obtained to pay 2007 general obligation bond debt service payments.
- \$32.7 million of CDL proceeds were received to fund Hurricane Katrina related expenses.
- In November 2004, the City received approval of the taxpayers to issue \$260 million of general obligation bonds. The City issued \$75 million of this \$260 million in 2007.

Outstanding Debt		
	<u>2007</u>	<u>2006</u>
General obligation bonds	\$ 538,514	478,420
Accreted GO 1991 refunding bonds	130,742	133,510
Limited tax bonds	30,045	31,550
Revenue bonds	<u>148,740</u>	<u>154,505</u>
	848,041	797,985
 Certificates of indebtedness	 110,165	 125,249
Notes payable (CDL loan)	170,358	137,610
Capital leases	28,715	29,855
LCDA note	3,565	4,375
Go Zone Notes	59,083	35,533
Section 108 HUD loans	<u>32,405</u>	<u>34,336</u>
	<u>\$ 1,252,332</u>	<u>1,164,943</u>

The following is a summary of debt transactions:

Balance at January 1, 2007	\$ 1,164,943
New issues	145,399
Payments	(58,010)
Balance at December 31, 2007	<u>\$ 1,252,332</u>

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The Louisiana Legislature, in Act 1 of 1994, increased the City's general obligation bond debt limit to an amount equal to the greater of (i) \$500,000,000 or (ii) 35% of total assessed valuation of the City. Under Act No. 1 of the City's debt limit, based on the most recent assessed valuations, is \$992 million as of December 31, 2007. At December 31, 2007, the City's legal debt margin (after the reduction for outstanding general obligation bonds and limited tax bonds totalling \$568.6 million) was \$277.8 million. An additional \$20.7 million was available in GO Zone Funds for Debt Service.

As of the end of 2006, the City's general obligation bonds were rated "Ba1" non-investment grade from Moody's Investors Service and "B" non-investment grade from Standard & Poor's Corporation. However, on May 1, 2007, Moody's upgraded the City's general obligation bond rating to "Baa3" investment grade. As of December 14, 2007, Fitch has rated the City "BBB-" investment grade, Standard & Poor's Corporation rated the City "BB", which is one step below investment grade, and Moody's still rates the City's general obligation bond rating at "Baa3" investment grade.

Economic Factors and Next Year's Budgets and Rates

The historic culture of New Orleans has in the past attracted visitors from every part of the globe. Hurricane Katrina, the worst national disaster in the history of the United States, devastated the City and the surrounding Gulf Coast. Property values, public facilities, tourism, and the morale of the City's citizens all suffered greatly.

The City's budget for revenues and other financing sources equaled the budget for expenditures and totaled \$455.7 million for 2007. Actual total revenue for 2007 was \$421.2 million.

The 2007 revenue budget was increased as a result of the increase in the City's population and increased tax collections. In 2007, the expenditures budget was also increased, and a number of the laid-off employees were rehired.

The following table presents an adopted budget comparison for 2006, 2007, and 2008 (amounts in thousands):

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Revenues and other financing sources	\$ 474,324	\$ 455,705	\$ 329,475
Expenditures	474,324	455,705	329,475

In the first quarter of 2006, the City drew the remaining balance of \$58.6 million from the original \$120 million CDL. In 2006, the City also received authorization for a second CDL from FEMA for \$120 million. The City drew \$17.6 million in December of 2006, \$32.7 million in 2007, and \$34.4 million in the first half of 2008. The City plans to draw down the remaining balance over the course of the next four years.

In 2006, the State of Louisiana authorized the City to borrow through the Gulf Opportunity Zone Program \$52.2 million to defray the cost of debt service in the General Fund for the years 2006 through 2009. Through December 2007, the General Fund has borrowed \$31.5 million under this program, \$10.1 in 2006 and \$21.3 in 2007.

The City's revenues and expenditures, although not at pre-Katrina levels yet, have increased in 2007 compared to 2006 as more and more of its citizens return.

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New Orleans is world-renowned as a leader in hosting large-scale events. The City's Mardi Gras celebration, the Jazz & Heritage Festival, Bayou Classic, and summer Essence Festival are annual attractions drawing millions of visitors, and are major parts of the City's tourism industry.

With aid from the State and Federal governments, the City is well on the road to recovery. In addition to the events mentioned above, the 2007 NFL New Orleans Saints Football team and 2007-08 NBA Hornets had sold out games. The City hosted the Bowl Championship Series national college football championship game. The Arena Football Championship game was played at the renovated New Orleans Arena and the City also hosted the National Basketball Association All-Star Game in February 2008.

The City is rebuilding and the future is bright. Our citizens are rebuilding their homes. Businesses both old and new are opening at a rapid pace. Investors are considering large scale projects throughout the region.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information may be addressed to the Office of the Director of Finance, City of New Orleans, 1300 Perdido Street, Room 3E06, New Orleans, Louisiana 70112.

CITY OF NEW ORLEANS, LOUISIANA

Statement of Net Assets

December 31, 2007

(Amounts in thousands)

Assets	Primary Government Governmental activities	Component units
Cash and cash equivalents	\$ 121,158	51,516
Investments	345,403	78,884
Receivables (net of allowance for uncollectibles):		
Taxes	26,978	4,549
Accounts	6,514	30,758
Interest	685	1,517
Grantee loans	6,531	—
Other	771	4,586
Due from component units	5,306	—
Due from other governments	68,144	73,844
Other assets	4,975	51,316
Restricted cash and investments	—	295,729
Restricted investments	—	—
Capital assets (net of accumulated depreciation)	1,214,749	2,017,547
Total assets	1,801,214	2,610,246
Liabilities		
Accounts payable	88,448	63,876
Retainages payable	—	2,886
Accrued expenses	206	55,501
Taxes Payable	12,653	—
Accrued interest payable	12,792	2,495
Due to other governments	16,457	8,244
Deferred revenues	2,603	31
Liabilities payable from restricted assets	—	10,200
Non-current liabilities due within one year	78,307	29,987
Non-current liabilities due in more than one year	1,518,219	693,927
Total liabilities	1,729,685	867,147
Net Assets		
Invested in capital assets, net of related debt	639,771	1,581,923
Restricted for debt service	73,267	45,626
Restricted for capital improvement	24,239	35,814
Restricted for operating reserve	—	16,253
Unrestricted (deficit)	(665,748)	63,482
Total net assets	\$ 71,529	1,743,098

See accompanying notes to basic financial statements.

CITY OF NEW ORLEANS, LOUISIANA

Statement of Activities

Year ended December 31, 2007

(Amounts in thousands)

Functions/Programs	Expenses	Program revenues		Net (expense) revenue and changes in net assets	
		Charges for services	Operating grants and contributions	Primary government activities	Component units
Primary government:					
Governmental activities:					
General government	\$ 203,620	51,749	53,821	(92,132)	---
Public safety	252,474	20,133	29,181	(194,713)	---
Public works	143,211	14,284	8,793	(83,997)	---
Health and human services	18,438	301	2,517	(14,127)	---
Culture and recreation	12,600	---	23,160	10,560	---
Urban development and housing	21,157	138	7,144	(13,875)	---
Economic development	9,080	4,229	9,481	4,879	---
Interest and fiscal charges	60,267	---	---	(60,267)	---
Total primary government	\$ 720,847	90,834	134,097	(443,672)	---
Component units:					
Audubon Commission	46,662	26,035	---	---	(13,125)
Louis Armstrong New Orleans International Airport	86,878	57,766	---	---	(20,372)
Sewerage and Water Board	174,091	106,642	1,777	---	6,283
Other nonmajor component units	29,487	10,749	4,698	---	(14,040)
Total component units	\$ 337,118	201,192	6,475	---	(41,254)
General revenues:					
Taxes:					
Property taxes				142,480	54,823
Sales taxes				134,114	---
Utility taxes				9,078	---
Franchise fees				32,325	---
Parking				2,324	---
Beverage taxes				597	---
Gain on Impairment				---	---
Unrestricted investment earnings				19,580	13,658
Passenger facility charges				---	15,598
Insurance proceeds				5,257	---
Miscellaneous				29,890	13,933
Total general revenues				375,645	98,012
Change in net assets				(68,027)	56,758
Net assets - beginning of year				151,162	1,686,340
Prior period adjustments (note 14)				(11,606)	---
Net assets - beginning of year, as adjusted				139,556	1,686,340
Net assets - end of year				\$ 71,529	\$ 1,743,098

See accompanying notes to basic financial statements.

CITY OF NEW ORLEANS, LOUISIANA
Balance Sheet — Governmental Funds
Year ended December 31, 2007
(Amounts in thousands)

Assets	General	HUD	Federal UDAG	FEMA	CDL	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 32,751	299	-	-	-	-	52,683	10,500	121,158
Investments	64,333	-	22,580	731	-	1,614	185,359	23,112	345,403
Receivables, net:									
Interest	-	-	-	-	-	-	685	-	685
Sales taxes	13,341	-	-	-	-	-	-	-	13,341
Property taxes	4,864	-	-	-	-	-	-	-	4,864
Accounts	5,499	366	-	-	-	4,457	-	703	10,024
Grantee loans	-	-	1,729	-	-	-	64	585	6,514
Franchise taxes	3,613	-	-	-	-	-	-	4,802	6,531
Other	771	-	-	-	-	-	-	-	3,613
Due from other funds	24,760	-	1,814	-	-	-	-	2,223	28,797
Due from other governments	3,587	4,234	-	28,147	-	-	16,735	15,441	68,144
Due from component unit	3,890	-	-	-	-	-	1,416	-	5,306
Advances from other funds	252	-	-	-	-	-	-	-	252
Other assets	-	-	-	-	-	-	-	17	17
Total assets	\$ 137,661	4,899	26,123	28,878	-	78,670	256,942	57,383	610,556
Liabilities									
Accounts payable	\$ 40,697	4,745	2	25,853	-	-	10,841	6,310	88,448
Accrued expenses	-	15	-	-	-	-	-	28	206
Due to other funds	1,877	139	196	13,871	-	163	-	12,714	28,797
Due to other governments	14,646	-	738	-	-	-	-	674	16,058
Advances to other funds	-	-	-	-	-	-	-	252	252
Advances to component unit	-	-	-	-	-	-	399	-	399
Deferred revenues	5,247	-	-	6,510	-	5,240	1,898	823	19,718
Total liabilities	\$ 62,467	4,899	936	46,234	-	5,403	13,138	20,801	153,878
Fund Balances									
Fund balances:									
Reserved:									
Unreserved:	16,526	-	25,187	-	-	73,267	57,159	1,946	174,085
Designated for subsequent year	40,083	-	-	-	-	-	186,645	-	226,728
Undesignated	38,585	-	-	(17,356)	-	-	-	34,636	55,865
Total fund balances	\$ 95,194	-	25,187	(17,356)	-	73,267	243,804	36,582	456,678
Total liabilities and fund balances	\$ 157,661	4,899	26,123	28,878	-	78,670	256,942	57,383	610,556

See accompanying notes to basic financial statements.

CITY OF NEW ORLEANS, LOUISIANA

**Reconciliation of Balance Sheet — Governmental Funds to the
Statement of Net Assets**

December 31, 2007

(Amounts in thousands)

Total fund balances – governmental funds	\$ 456,678
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	1,214,749
Certain receivables are not available to pay for the current period's expenditures and, are therefore, deferred in the funds	17,115
Bond issue costs are capitalized and amortized over the life of the bonds in the government-wide statement of net assets	4,958
Interest expense is accrued at year-end in the government-wide financial statements, but is recorded only if due and payable on the governmental fund financial statements	(12,792)
Taxes Payable	(12,653)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	
Long-term liabilities consist of:	
Bonds payable	(854,609)
Certificates of indebtedness	(110,165)
Loans payable	(261,846)
Capital leases payable	(28,715)
Annual and sick leave	(43,970)
Claims payable	(228,601)
Net pension obligation	(34,052)
Other long-term liabilities	(34,568)
	<hr/>
Total net assets – governmental activities	\$ <u>71,529</u>

See accompanying notes to basic financial statements.

CITY OF NEW ORLEANS, LOUISIANA
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
Year ended December 31, 2007
(Amounts in thousands)

	General	HUD	Federal UDAG	FEMA	CDL	Debt Service	Capital Projects	Nonmajor Governmental	Total Governmental Funds
Revenues:									
Taxes	\$ 231,529	—	—	—	—	62,178	—	4,913	298,620
Licenses and permits	55,490	—	—	—	—	—	—	—	55,490
Intergovernmental	27,584	23,146	—	37,689	—	—	43,421	45,065	176,905
Charges for services	35,080	—	—	—	—	—	—	—	35,080
Program income	—	—	—	—	—	—	—	66	66
Fines and forfeits	11,766	—	—	—	—	—	—	559	12,325
Interest income	13,949	—	208	—	—	4,415	551	457	19,580
Contributions, gifts and donations	558	—	—	—	—	—	—	2,606	3,164
Miscellaneous and other	13,400	—	14,337	—	—	—	4,066	16,426	48,229
Total revenues	389,356	23,146	14,545	37,689	—	66,593	48,038	70,092	649,459
Expenditures:									
Current:									
General government	143,704	449	—	14,775	—	465	1,978	26,632	188,003
Public safety	154,205	—	—	12,381	32,748	—	2,023	8,066	209,423
Public works	61,610	708	—	16,231	—	—	848	79,397	142,754
Health and human services	10,714	—	—	246	—	—	—	6,884	17,844
Culture and recreation	12,138	—	—	28	—	—	—	1,269	13,435
Urban development and housing	2	21,989	—	538	—	—	—	8,635	22,529
Economic development and assistance	—	—	1,038	—	—	—	57,154	—	57,154
Capital projects	—	—	—	—	—	—	—	—	—
Debt service:									
Principal	23,860	—	461	—	—	16,410	—	220	40,951
Interest and fiscal charges	19,692	—	589	—	—	39,320	—	325	59,926
Bond issuance costs	—	—	—	—	—	523	—	—	523
Total expenditures	425,915	23,146	2,088	44,199	32,748	57,118	62,003	52,031	699,248
(Deficiency) excess of revenue over expenditures	(36,559)	—	12,457	(6,510)	(32,748)	9,475	(13,965)	18,061	(49,789)
Other financing sources (uses):									
Transfers in	12,700	—	—	—	—	—	79,906	1,350	93,956
Transfers out	(1,351)	—	—	—	—	(75,151)	—	(17,454)	(93,956)
Issuance of notes payable	—	—	—	—	32,748	—	—	—	32,748
Issuance of long-term debt	—	—	—	—	—	75,147	—	—	75,147
Issuance of refunding bonds	—	—	—	—	—	—	—	—	—
Debt service assistance loan	21,345	—	—	—	—	2,204	—	—	23,549
Insurance proceeds	(789)	—	—	—	—	—	4,925	—	4,136
Other, net	—	—	—	—	—	—	—	—	(789)
Total other financing sources (uses)	31,925	—	—	—	32,748	2,204	84,831	(16,104)	135,600
Net change in fund balances	(4,634)	—	12,457	(6,510)	—	11,675	70,866	1,957	83,811
Fund balances - beginning of year	99,828	—	12,730	(9,915)	—	61,592	167,281	34,625	366,141
Prior period adjustments	—	—	—	(931)	—	—	5,657	—	4,726
Fund balances - beginning of year, as adjusted	99,828	—	12,730	(10,846)	—	61,592	172,938	34,625	370,857
Fund balances - end of year	95,194	—	25,187	(17,356)	—	73,267	243,804	36,582	456,678

See accompanying notes to basic financial statements.

CITY OF NEW ORLEANS, LOUISIANA

**Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities**

Year ended December 31, 2007

(Amounts in thousands)

Net change in fund balances -- total governmental funds	\$ 85,811
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the costs of those assets are allocated over their estimated useful lives and are reported as depreciation expense. This represents the amount that depreciation and loss on disposals exceeded capital outlays in the current period.	(55,165)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. This represents the change in deferred revenue.	2,278
The increase in taxes payable related to current year refunds due to taxpayers does not consume current resources in the governmental funds, but reduces tax revenue in the statement of activities.	(2,777)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, but has no effect net assets.	(131,591)
The repayment of long-term debt consumes the current financial resources of governmental funds, but has no effect on net assets.	43,720
Bond premium of \$147 was capitalized in the current year and amortization of premium, discount and loss on refunding of \$606 (net) was recorded in the current period.	459
Bond issue cost of \$923 were capitalized in the current year and amortization in the amount of \$436 was recorded in the current period.	487
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This represents the change in interest payable from the prior to the current period.	(3,280)
Compensated absences are recorded in the governmental funds when paid, but are recorded in the statement of activities when earned. This represents the amount compensated absences earned exceeded amounts paid in the current period.	(2,580)
Legal claims and judgments are recorded in the governmental funds when paid, but are recorded in the statement of activities when incurred. This represents the amount claims paid and changes in estimates to claims exceed new claims incurred in the current period.	30,874
Changes in estimates related to municipal landfill closure costs do not consume current financial resources in the governmental funds, but are expensed in the statement of activities.	(135)
Other post retirement benefits contributions are recorded as expenditures when paid by the governmental funds. This is the amount that the annual other post retirement benefit costs exceeded the other post retirement benefit contributions.	(18,443)
Pension and contributions are recorded as expenditures when paid by the governmental funds. Pension expense is recorded based on the annual pension cost in the statement of activities. This is the amount that the annual pension cost exceeded pension contributions.	(17,685)
Change in net assets of governmental activities	<u>\$ (68,027)</u>

See accompanying notes to basic financial statements.

CITY OF NEW ORLEANS, LOUISIANA

Statement of Fiduciary Net Assets

December 31, 2007

(Amounts in thousands)

Assets	Pension Trust Funds	Agency Funds
Cash	\$ 6,539	9,782
Investments	725,838	31,456
Receivables:		
Accounts	—	6,894
Accrued interest	7,900	—
Contribution	404	—
Other	3,817	—
Due from other funds	—	—
Due from other governments	—	1,076
Capital assets, net of accumulated depreciation	93	—
Total assets	744,591	49,208
Liabilities and Net Assets		
Liabilities:		
Accounts payable	2,005	501
Other payables and accruals	7,210	37,451
Due to other funds	—	—
Due to other governments	—	11,256
Notes payable	25,957	—
Total liabilities	35,172	49,208
Net assets:		
Net assets held in trust for pension benefits	\$ <u>709,419</u>	<u>—</u>

See accompanying notes to basic financial statements.

CITY OF NEW ORLEANS, LOUISIANA

Statement of Changes in Fiduciary Net Assets

Year ended December 31, 2007

(Amounts in thousands)

	<u>Pension Trust Funds</u>
Additions:	
Contributions:	
Employer	\$ 13,009
Members	4,022
Fire insurance rebate	2,316
Other	216
Total contributions	19,563
Investment income:	
Net appreciation in fair value of investments	50,828
Interest and dividends	16,206
Other investment income	1,229
Total investment income	68,263
Investment expense	(5,609)
Net investment income	62,654
Total additions	82,217
Deductions:	
Pension benefits	60,316
Refunds of member contributions	1,250
Death benefits	48
Administrative expenses	2,051
DROP withdrawal	3,427
PLOP withdrawal	2,213
Transfers to other plans	1,556
Total deductions	70,861
Increase in net assets	11,356
Net assets held in trust for pension benefits – beginning of year	698,063
Net assets held in trust for pension benefits – end of year	\$ 709,419

See accompanying notes to basic financial statements.

CITY OF NEW ORLEANS, LOUISIANA

Combining Statement of Net Assets

Component Units

December 31, 2007

(Amounts in thousands)

Assets	Audubon Commission	Louis Armstrong New Orleans International Airport	Sewerage and Water Board	Nonmajor Component Units	Total
Current assets:					
Cash and cash equivalents	\$ 4,623	6,548	17,933	22,412	51,516
Investments	—	69,966	—	8,918	78,884
Receivables (net of allowances for uncollectibles):					
Property taxes	—	—	4,549	—	4,549
Accounts	—	9,793	16,107	4,858	30,758
Accrued interest	—	307	1,141	69	1,517
Other	452	4,038	—	96	4,586
Due from other governments	—	376	72,581	887	73,844
Inventory of supplies	1,234	100	12,177	—	13,511
Prepaid expenses and deposits	1,363	2,222	1,323	517	5,425
Other assets	—	—	4,941	13	4,954
Total current assets	7,672	93,350	130,752	37,770	269,544
Restricted cash and investments:					
Customer deposits	—	—	4,965	9,336	14,301
Construction account	—	—	70,700	—	70,700
Current debt service account	—	5,918	5,732	3,039	14,689
Future debt service account	1,467	10,151	22,254	443	34,315
Contingency (renewal and replacement) account	—	2,006	—	426	2,432
Operation and maintenance account	—	8,652	—	600	9,252
Capital improvements	524	50,307	82,480	—	133,311
Health insurance reserve	—	—	4,840	—	4,840
Receivables	—	1,749	—	—	1,749
Other	—	9,194	212	734	10,140
Total restricted assets	1,991	87,977	191,183	14,578	295,729
Capital assets, less accumulated depreciation	141,450	396,049	1,445,498	34,550	2,017,547
Other assets	13,557	5,577	4,087	4,205	27,426
Total assets	\$ 164,670	582,953	1,771,520	91,103	2,610,246

CITY OF NEW ORLEANS, LOUISIANA

Combining Statement of Net Assets

Component Units

December 31, 2007

(Amounts in thousands)

Liabilities and Net Assets	Audubon Commission	Louis Armstrong New Orleans International Airport	Sewerage and Water Board	Nonmajor Component Units	Total
Current liabilities (payable from current assets):					
Accounts payable	\$ 6,705	4,571	50,142	2,458	63,876
Retainages payable	—	413	2,473	—	2,886
Other payables and accruals	9,539	2,026	42,383	1,553	55,501
Due to other governments	—	3,584	123	4,537	8,244
Capital lease payable	—	458	104	103	665
Deferred revenues	—	—	—	31	31
Total current liabilities (payable from current assets)	16,244	11,052	95,225	8,682	131,203
Current liabilities (payable from restricted assets):					
Retainages payable	—	522	962	—	1,484
Capital projects payable	506	2,580	—	—	3,086
Accounts payable	—	556	—	—	556
Accrued interest	85	864	1,536	10	2,495
Limited tax bonds	2,169	—	—	—	2,169
Bonds payable, current portion	—	12,970	12,587	485	26,042
Revenue bonds	1,111	—	—	—	1,111
Deposits and other	—	—	4,965	109	5,074
Total current liabilities (payable from restricted assets)	3,871	17,492	20,050	604	42,017
Total current liabilities	20,115	28,544	115,275	9,286	173,220
Long-term liabilities:					
Claims payable	—	—	5,556	—	5,556
Capital lease payable	—	—	—	4	4
Limited tax bonds (net of current portion)	32,605	—	—	—	32,605
Revenue bonds (net of current portion and unamortized discounts)	5,113	—	258,156	19,000	282,269
Refunding bonds (net of current portion and unamortized loss on advance refunding)	9,172	187,709	—	3,080	199,961
Loans Payable	—	42,110	126,612	1,314	170,036
Other	2,018	479	—	999	3,496
Total long-term liabilities	48,908	230,298	390,324	24,397	693,927
Total liabilities	69,023	258,842	505,599	33,683	867,147
Net assets:					
Invested in capital assets – net of related debt	91,163	212,312	1,245,350	33,098	1,581,923
Restricted for bond debt service	—	15,206	27,986	2,434	45,626
Restricted for capital improvements	—	42,803	(7,415)	426	35,814
Restricted for operating reserve	—	15,653	—	600	16,253
Unrestricted	4,483	38,137	—	20,862	63,482
Total net assets	\$ 95,646	324,111	1,265,921	57,420	1,743,098

See accompanying notes to basic financial statements.

CITY OF NEW ORLEANS, LOUISIANA

Combining Statement of Activities

Component Units

Year ended December 31, 2007

(Amounts in thousands)

	Program revenues			Net (expense) revenue and changes in net assets				
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Audubon Commission	Louis Armstrong New Orleans International Airport	Sewerage and Water Board	Nonmajor Component Units
Component units:								Total
Audubon Commission	\$ 46,662	26,035	--	7,502	(13,125)	--	--	--
Louis Armstrong New Orleans International Airport	86,878	57,766	--	8,740	--	(20,372)	--	--
Sewerage and Water Board	174,091	106,642	1,777	71,955	--	--	6,283	--
Other nonmajor component units	29,487	10,749	4,698	--	--	--	--	(14,040)
Total component units	\$ 337,118	201,192	6,475	88,197	(13,125)	(20,372)	6,283	(14,040)
General revenues:								
Interest revenue					--	6,448	5,194	2,016
Property taxes					8,531	--	40,671	5,621
Passenger facility charges					--	15,598	--	5,621
Other					3,593	958	--	9,382
Total general revenues					12,124	23,004	45,865	17,019
Changes in net assets					(1,001)	2,632	52,148	2,979
Net assets - beginning					96,647	321,479	1,213,773	54,441
Net assets - ending					\$ 95,646	324,111	1,265,921	57,420

See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

CITY OF NEW ORLEANS, LOUISIANA

Notes to Basic Financial Statements

December 31, 2007

(1) Summary of Significant Accounting Policies

The financial statements of the City of New Orleans, Louisiana (the City) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) for local governmental units as prescribed by the Governmental Accounting Standards Board (GASB). The most significant accounting and reporting policies of the City are described in the following notes to financial statements.

The City was incorporated in 1805. The City's system of government was established by its Home Rule Charter, which became effective in 1954 and was amended effective January 1, 1996. The City operates under a Mayor-Council form of government and provides the following types of services as authorized by its charter: public safety, health and human services, public works, water and sewerage, urban development and housing, economic development, culture and recreation, airport, and general government services. Education and welfare are administered by other governmental entities.

Basis of Presentation – Financial Reporting Entity

The accompanying financial statements include financial statements for the City and certain legally separate organizations in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units, an amendment of GASB Statement 14*. Organizations are included if the City is financially accountable for them, or the nature and significance of their relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete.

The City is financially accountable for an organization if it appoints a voting majority of the organization's governing body and is able to impose its will on that organization, or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the City. In addition, an organization that is fiscally dependent on the primary government should be included in its reporting entity.

Component Units

In conformity with GAAP, the financial statements of component units have been included in the financial reporting entity either as blended component units or discretely presented component units. Each blended and discretely presented component unit has a December 31 year-end. The Municipal Yacht Harbor Management Corporation does not prepare complete financial statements.

Complete financial statements of the following individual discretely presented component units can be obtained from their administrative offices:

Audubon Commission
1300 Perdido Street, Suite 2E04
New Orleans, Louisiana, 70112

Louis Armstrong New Orleans International
Airport
New Orleans Aviation Board
P.O. Box 20007
New Orleans, Louisiana 70141

Orleans Parish Communication District
301 South Broad Street
New Orleans, Louisiana 70119

Municipal Yacht Harbor Management Corporation
401 North Roadway Street
New Orleans, Louisiana 70124

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Sewerage and Water Board
625 St. Joseph Street
New Orleans, Louisiana 70165

Downtown Development District
1010 Common Street, Suite 100
New Orleans, Louisiana 70112

New Orleans Tourism Marketing Corporation
One Canal Place
Suite 2020
New Orleans, Louisiana 70130

French Market Corporation
1008 N. Peters Street, 3 floor
New Orleans, Louisiana 70116

Upper Pontalba Building Restoration Corporation
1008 N. Peters Street, 2 Floor
New Orleans, Louisiana 70116

Canal Street Development Corporation
1300 Perdido Street, Suite 2E04
New Orleans, Louisiana 70112

Blended Component Units

Blended component units, although legally separate entities, are, in substance, part of the City's operations, as they provide services exclusively or almost exclusively for the City. Following is a description of those legally separate component units for which the City is financially accountable that are blended with the primary government because they are, in substance, part of the government's operations. Blended means the data from these units are combined with data of the primary government.

Board of Liquidation, City Debt (The Board) – The Board is a separate legal entity and is included (blended) in the operations of the debt service fund and governmental activities of the City because it handles all matters relating to the bonded debt of the City.

In addition, the following component units are reported as pension trust funds:

Municipal Employees Retirement Plan (MERP) – MERP is a separate legal entity established by City ordinance to provide pension benefits for substantially all City employees, except police officers and fire fighters. The Mayor appoints a voting majority of the members of the MERP governing board. MERP is presented as a pension trust fund because MERP serves the employees of the City. The net assets of MERP are held for the sole benefit of the participants and are not available for appropriation.

Firefighters' Pension and Relief Fund (FPRF) – FPRF is a separate legal entity established by City ordinance to provide pension benefits for City firefighters. The Mayor appoints the members of the FPRF governing board. FPRF is presented as a pension trust fund because FPRF serves the employees of the City. The net assets of FPRF are held for the sole benefit of the participants and are not available for appropriation.

Police Pension Fund (PPF) – PPF is a separate legal entity established by City ordinance to provide pension benefits for City police officers. The Mayor appoints the members of the PPF governing board. PPF is presented as a pension trust fund because PPF serves the employees of the City. The net assets of PPF are held for the sole benefit of the participants and are not available for appropriation.

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Discretely Presented Component Units

Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize their legal separateness from the City.

The following are the City's discretely presented component units:

Major Discretely Presented Component Units	Brief Description of Activities, Relationship to City, and Key Inclusion Criteria
<i>Louis Armstrong New Orleans International Airport (the Airport)</i>	Local government corporation established in 1943 by the City to provide for the operation and maintenance of the Airport. The Board consists of nine members appointed by the Mayor of the City with approval of the City Council. The City of Kenner, Louisiana and the Parish of St. Charles, Louisiana each have input as to the selection of one board member. The City has financial accountability because it appoints a voting majority of the Board and the City can impose its will.
<i>Sewerage and Water Board</i>	A local government corporation created by the City through Act 6 of the Louisiana Legislature of 1899 as a special board independent of the City's government to construct, maintain, and operate a water treatment and distribution system and a public sanitary sewerage system for the City. In accordance with Louisiana Revised Statutes (LRS) 33:4096 and 4121, the Board has the authority to establish the water and sewerage rates to charge to its customers. The board is composed of 13 members, including the Mayor of the City, the two Council members-at-Large, and one District Council member selected by the City Council, two members of the Board of Liquidation and seven citizens appointed by the Mayor. The appointed members of the board serve staggered nine-year terms. The City has financial accountability because it appoints a voting majority of the Board and the City can impose its will.

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Major Discretely Presented Component Units	Brief Description of Activities, Relationship to City, and Key Inclusion Criteria
<i>Audubon Commission (the Commission)</i>	The Commission was created by the Louisiana Legislature to manage and operate its facilities consisting of nine museums and parks dedicated to celebrating the wonders of nature, with goals of fostering education, research, wildlife conservation, family entertainment, and positive economic impact. The Commission has a 24-member board appointed by the Mayor. The City has financial accountability because it appoints a voting majority of the board and the City can impose its will.
<i>Downtown Development District</i>	Local government corporation created by Act 498 of 1974 and amended and reenacted by Act 124 of 1977 of the State of Louisiana Legislature, effective January 1, 1975. The District is a special taxing district designated "the Core Area Development District of the City of New Orleans," later renamed the Downtown Development District of the City of New Orleans, comprising all the territory within prescribed boundaries. The board of directors is composed of nine members for governance of the District. The City has financial accountability because it appoints a voting majority of the board and the City can impose its will.
<i>New Orleans Tourism Marketing Corporation</i>	A local government corporation created by the City on January 1, 1990. Its objectives and purposes are to continuously stimulate the hospitality and tourism industry of the City of New Orleans through regional, national, and international advertising and marketing of the City of New Orleans as a tourist and convention site and a vacation destination; to stimulate economic development in the City of New Orleans through the marketing and solicitation of conventions and trade shows throughout the U.S. and the World; and to advance, promote, and maintain tourism and trade in the City of New Orleans through marketing activities directed at the discretionary tourist or traveler through advertising, direct mailing, or other means. A 15-member Board of Directors is appointed in various ways. The City has financial accountability because it appoints a voting majority of the Board and the City can impose its will.

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Major Discretely Presented Component Units	Brief Description of Activities, Relationship to City, and Key Inclusion Criteria
<i>Municipal Yacht Harbor Management Corporation</i>	Local corporation formed by the City to operate the Municipal Yacht Harbor in the manner comparable to that of a private business enterprise; to provide a safe and secure environment for recreational boating; to ensure that the cost associated with providing services to the general public are financed or recovered through user fee and charge; and to place an emphasis on generating a sufficient amount of net operating revenues to be used for maintenance and capital improvement projects. The City has financial accountability because it appoints a voting majority of the Board and the City can impose its will.
<i>French Market Corporation</i>	Local government corporation formed January 1, 1972 by the City to provide for the operation and maintenance of the French Market Properties owned by the City of New Orleans. These properties include five buildings and the Farmers Market. The French Market is a nonprofit corporation that is owned by the City and administered by a board of directors consisting of 12 members appointed by the Mayor. The City has financial accountability because it appoints a voting majority of the corporation and the City can impose its will.
<i>Upper Pontalba Building Restoration Corporation</i>	Local government corporation organized on July 14, 1988 by the City for the purpose of renovating and operating the Upper Pontalba Building. The organization is a nonprofit corporation administered by a board of directors consisting of 7 members that are appointed by the sole stockholder, the Mayor of New Orleans. The City has financial accountability because it appoints a voting majority of the board and the City can impose its will.

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**Major Discretely Presented Component
Units**

**Brief Description of Activities, Relationship to City,
and Key Inclusion Criteria**

Canal Street Development Corporation

Nonprofit, public benefit corporation incorporated on August 8, 1989 under the Internal Revenue Code Section 501(c)(3) for the sole and exclusive purpose of stimulating business development in the Central Business District and the adaptive reuse and development of Canal Street for commercial purposes. This objective is currently being met through renovations and the leasing of donated real estate and economic development endeavors downtown. The organization's board of directors is comprised of two Councilmen from the City Council and other board members who are appointed by the Mayor of the City. The City has financial accountability because it appoints a voting majority of the board and the City can impose its will.

Orleans Parish Communication District

The Orleans Parish Communication District, comprising Orleans Parish, was created effective July 13, 1982, pursuant to Act No. 155 of the 1982 Regular Session of the Louisiana Legislature. The district was created for the purpose of establishing a local emergency telephone service; to establish a primary emergency telephone number; to provide for the governing body of the District; and to authorize the governing authority of such district to levy an emergency telephone tax. This act was amended by Act No. 1029 in 1999 to provide for the creation of multi-parish communications districts; to provide information relative to the rate of the emergency telephone service charge on landline phones; and to authorize the levy of an emergency telephone service charge on certain wireless communications systems. The City has financial accountability because it appoints a voting majority of the board and the City can impose its will.

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Related and Jointly Governed Organizations

Related organizations and jointly governed organizations provide services within the City that are administered by separate boards or commissions, for which the City is not financially accountable, and such organizations are, therefore, not reported as component units of the City even though the Mayor and/or the City Council may appoint a voting majority of an organization's board.

Related Organizations

For the following organizations, the Mayor and/or the City Council appoints a voting majority of the members of the respective boards.

- Community Improvement Agency
- Housing Authority of New Orleans
- Finance Authority of New Orleans
- Public Belt Railroad Commission
- New Orleans Affordable Home Ownership, Inc.
- Regional Transit Authority

Jointly Governed Organizations

The City is a participant in other jointly governed organizations. The Mayor and/or the City Council appoints members of the boards for the following organizations. Such appointments represent less than a voting majority of the respective boards. There is no ongoing financial interest or ongoing financial responsibility for these entities.

- New Orleans Regional Loan Corporation
- New Orleans City Park Improvement Association
- New Orleans Exhibition Hall Authority
- Regional Planning Commission

Basis of Presentation – Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City and its component units. Activity for the City and its discretely presented component units are reported separately in the government-wide financial statements. The effect of interfund activity has been eliminated in these statements.

Governmental activities are supported in part by property taxes, sales taxes, franchise taxes, charges for services, and grant revenues from the federal government and the State of Louisiana.

The statement of activities reports the change in the City's net assets from January 1, 2007 to December 31, 2007. This statement demonstrates the degree to which the direct expenses of a given function of government are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function of City government. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided

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by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues in the statement of activities.

In addition to the government-wide financial statements, the City also reports financial statements for its governmental and fiduciary funds; these statements are classified as fund financial statements. The fund financial statements are organized on the basis of funds, each of which is considered a separate accounting entity with self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are spent and the means by which spending activities are controlled.

Information in the governmental fund financial statements is reported on a major fund basis. The identification of major funds is determined by the City each year under the methods outlined in GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – of State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – of State and Local Governments: Omnibus GASB Statements*. Major individual governmental funds are reported as separate columns in the fund financial statements. Nonmajor funds are reported in the aggregate in the non-major governmental funds column.

Governmental Funds

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use and balances of the City's expendable financial resources, and the related liabilities are accounted for through governmental funds. The following are the City's major governmental funds:

- (a) **General Fund** – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in other funds.
- (b) **HUD Fund** – This special revenue fund is used to account for funding from the Department of Housing and Urban Development (HUD). Some of the major initiatives are Community Development Block Grants (CDBG), HOME Investment Partnership Act Program (HOME), Emergency Shelter Grant (ESG) Program, and Housing Opportunities for Persons with HIV/AIDS (HOPWA).
- (c) **Federal UDAG Fund** – This special revenue fund accounts for grants received from the Department of HUD for the purpose of providing loans to the private sector for completion of projects that will stimulate economic development activity in the City.
- (d) **FEMA Fund** – This special revenue funds accounts for grants received from the Federal Emergency Management Agency (FEMA) for Hurricane Katrina relief efforts.
- (e) **CDL Fund** – This special revenue fund is used to account for the proceeds from the Community Disaster Loans. The proceeds were all spent in public safety expenditures in 2006.
- (f) **Debt Service Fund** – The debt service fund is used to account for the accumulation of resources for, and the payment of, general obligation bonds, limited tax bonds, and revenue bonds, including debt principal, interest, and related costs.

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- (g) *Capital Projects Fund* – The capital projects fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by trust funds).

Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, and other governmental units. These include the following:

- (a) *Pension Trust Funds* – account for the accumulation of resources for pension benefit payments to qualified employees.
- (b) *Agency Funds* – are custodial in nature and do not involve measurement of results of operations.

Basis of Accounting-Measurement Focus

Government-Wide Financial Statements (GWFS)

The statement of net assets and the statement of activities include all the financial activities of the City, except for the fiduciary funds, and its component units.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Fund Financial Statements

All governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Their reported fund balances are considered a measure of “available spendable resources.” Governmental fund statement of revenues, expenditures, and changes in fund balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of “available spendable resources” during a period. Under the modified accrual basis of accounting, revenues are recorded when considered both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers amounts collected within sixty days after year-end, excluding grant moneys for which the period is one year after year-end, to be available and recognizes them as revenues of the current period. Expenditures are generally recognized under the modified accrual basis of accounting in the accounting period in which the fund liability is incurred. Expenditures related to principal and interest on long-term debt, claims, judgments, landfill post closing costs, and compensated absences are recognized when matured (i.e., due and payable). The following types of revenues are susceptible to accrual under the modified accrual basis of accounting: delinquent property taxes (including penalty and interest); services billed to other funds; sales tax; franchise fees; investment earnings, and grants. Intergovernmental revenues from reimbursable grants and capital projects are recognized when all eligibility requirements have been met and amounts are considered available.

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Noncurrent portions of certain long-term receivables, primarily property taxes and special assessments, are reported on the balance sheet of governmental funds in spite of their spending measurement focus. Special reporting treatments are used to indicate that they should not be considered "available spendable resources," since they do not represent net current assets. Recognition of governmental fund type revenues represented by noncurrent receivables is deferred until they become available.

Licenses and permits, certain charges for services, fines, and forfeitures, and miscellaneous other revenues are recorded as revenues when received in cash because they are generally not measurable or available until actually received.

Pension Trust and Agency Funds

Pension trust funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Their revenues are recognized when earned, and their expenses are recognized when incurred. Agency funds use the accrual basis of accounting, but do not involve the measurement of operations.

Use of Restricted Assets

When restricted and unrestricted resources are available to cover expenses, unrestricted resources are first applied.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments

Investments are stated at fair value based on quoted market prices.

Accounts Receivable

Property tax receivables of \$26.9 million and grantee loan receivables of \$47.9 million are shown net of an allowance of uncollectible amounts of \$15.6 million and \$41.4 million, respectively.

Capital Assets

Capital assets (i.e., land, buildings, equipment, and improvements other than buildings), which include the City's infrastructure, and construction in progress are stated at historical cost or estimated historical cost if historical cost is not known. Donated capital assets are recorded at their fair value on the date donated. An item is classified as an asset if the initial individual cost is \$5,000 or greater. Capital assets of the City are

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reported in the government-wide financial statements but not in the governmental fund financial statements. Assets subject to depreciation are depreciated using the straight-line method.

Additions and improvements that significantly extend the useful life of an asset are capitalized. Repairs and maintenance costs are expensed as incurred.

The City reviews the carrying value of its capital assets to determine if circumstances exist indicating impairment in the carrying value of capital assets. If facts or circumstances support the possibility of impairment, management follows guidance in GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. If impairment is indicated, an adjustment will be made to the carrying value of the capital assets.

The estimated useful lives (in years) of all depreciable assets are as follows:

Buildings and improvements	20 – 40
Equipment and vehicles	5 – 10
Infrastructure	25 – 50
Other	5 – 15

Fully depreciated capital assets are included in the capital asset accounts until their disposal. The cost of assets sold or retired and the related amounts of accumulated depreciation are eliminated from the accounts in the year of sale or retirement, and any resulting gain or loss is recorded in the financial statements.

Annual and Sick Leave

All full-time classified employees of the City hired prior to January 1, 1979 are permitted to accrue a maximum of 90 days of vacation (annual leave) and an unlimited number of days of sick leave (accumulated at a maximum of 24 days per year). Employees hired after December 31, 1978 may accrue a maximum of 45 days of annual leave and an unlimited number of days of sick leave. Upon termination of employment, an employee is paid for accrued annual leave based upon his or her current hourly rate of pay and for accrued sick leave on a formula basis. If termination is the result of retirement, the employee has the option of converting accrued leave to additional days of service.

For governmental funds, annual and sick leave expenditures are recorded when due and payable. All vacation and sick leave is accrued when earned at the government-wide level.

Litigation

Claims and judgments are recognized in the governmental funds as expenditures when due and payable. Therefore, claims and judgments that are due and payable would be expected to be liquidated with expendable available financial resources. To the extent that claims and judgments mature prior to December 31, and are payable from current financial resources, they are accrued at December 31, 2007. Other liabilities not expected to mature as of December 31, 2007 are reported as liabilities in the government-wide financial statements. Estimates of claims and judgment liabilities (both incurred and reported and incurred but not reported) are made through a case-by-case review of all claims and the application of historical experience to the outstanding claims.

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Fund Balance

(a) Reserved

Indicates that portion of fund balance, which has been legally segregated (e.g., by bond ordinance) for specific purposes and not available for appropriation.

(b) Designated Fund Balance

Indicates that portion of fund balance for which the City management has placed limitations as to use.

(c) Undesignated Fund Balance

Indicates that portion of fund balance, which is available for appropriation in future periods.

(2) Natural Disaster

On August 29, 2005, Hurricane Katrina struck the United States' gulf coast and caused destruction across the City and the states of Louisiana, Mississippi, and Alabama. Hurricane Katrina's tidal surges and the resulting levee breaches left eighty percent of the City under water. Ninety percent of the City's residents left under mandatory evacuation orders. The City suffered losses to buildings, police cars, fire trucks, parks, and other City-owned properties and equipment. See further discussion in Note 6.

In 2005, the City received a \$102,000,000 grant from FEMA for reimbursement of expenditures for recovery efforts that began immediately after the storm. Additional grants were received in 2006 to fund expenditures recorded in 2005. In addition, the City received \$1,300,000 from the State of Louisiana as compensation for the revenue shortfall caused by the storm. These grants were reflected as operating grants in the 2005 fund level statement of activities. The City also received authorization for a \$120,000,000 Community Disaster Loan (CDL). As of December 31, 2005, the City had drawn \$61,396,000 of the CDL. The remaining \$58,604,000 was drawn down during 2006. The City received authorization during 2006 for an additional \$120,000,000 CDL on which \$17,610,000 was drawn down as of December 31, 2006. An additional \$32,748,000 was drawn down during 2007. These loans are reflected as long-term liabilities in the accompanying government-wide financial statements and are further described in Note 7. At the fund level these loans and related expenditures were recorded in the new major special revenue fund named CDL.

(3) Deposits and Investments

Deposits. The City's deposits are subject to and maintained in accordance with the State of Louisiana's Constitutional Revised Statutes (Revised Statutes). Under the Revised Statutes, all deposits exceeding the amount insured by the FDIC are to be fully collateralized with specific approved securities designated therein valued at 102% of the deposits. The eligible collateral pledged are held in custody by any Federal Reserve Bank, or branch thereof or an independent third party with whom the City has a current custodial agreement. All collateral held must be clearly marked, indicating evidence of ownership (safekeeping receipt). Deposits collateralized under the Revised Statutes are considered collateralized with securities held by the pledging financial institutions trust department or agent in the "City's name."

At December 31, 2007, the carrying amount of the City's deposits was \$134,131,000.

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Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it under state law, all deposits are secured by federal depository insurance or the pledge of securities held by the pledging banks agent in the City of New Orleans' name. At December 31, 2007, the City of New Orleans' bank balances amounted to \$648,698,104. Of the bank balances \$460,361 was covered by federal depository insurance and \$57,589,894 was covered by collateral held by the pledging banks' trust department or agent in the City of New Orleans' name. The City had \$6,652,737 in bank balances that were neither covered by federal depository insurance or by collateral held at December 31, 2007.

Investments. The City's investment policy states its primary objectives, in priority order, of investment activities shall be:

Safety: Safety/security of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

Liquidity: The City investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements that might be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity).

Return on Investments: The investment portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, commensurate with investment risks constraints and the cash flow characteristics of the portfolio. Return on investments shall be secondary to the safety and liquidity objectives described above. The core of investments is limited to qualified, relatively low-risk securities in anticipation of earning a fair return relative to the risk being assumed.

The City's investment policy applies to all investment activities of the City under the control of the Director of Finance, including management of certain investments related to governmental and agency funds. All deposits and investments shall be made with a qualified public depository or dealer. Broker/Dealers are selected by their credit worthiness and must be authorized to provide investment services in the state of Louisiana. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule).

The City's policy also requires, to the extent possible, diversification of its investments by security type and institution. With the exception of U.S. Treasury securities, bank certificates of deposit (as limited by R.S.39:1242d), and authorized pools, no more than 25% of the City's total investment portfolio will be invested in a single security type or with a single financial institution. This diversification is required in order that potential losses on individual securities do not exceed the income of the remainder of the portfolio. Deviation from expectations will be reported in a timely manner and appropriate action taken to control adverse risks.

The City invests monies with the Louisiana Asset Management Pool (LAMP). LAMP is a nonprofit corporation organized under the laws of the State of Louisiana formed by an initiative of the State Treasurer in 1993. While LAMP is not required to be a registered investment company under the

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Investment Company Act of 1940, its investments policies are similar to those established by Rule 2-a7, which governs registered money market funds. The primary objective of LAMP is to provide a safe environment for the placement of public funds in short-term, high-quality investments. LAMP's portfolio includes only securities and other obligations in which local governments in Louisiana are authorized to invest. Accordingly, LAMP investments are restricted to securities issued, guaranteed, or backed by the U.S. Treasury, the U.S. government or one of its agencies, enterprises, or instrumentalities, as well as repurchase agreements collateralized by those securities. The dollar-weighted average of portfolio maturity of LAMP assets is restricted to not more than 90 days and consists of no securities with a maturity in excess of 397 days. The fair market value of investments is determined weekly to monitor any variances between amortized cost and market value. For purposes of determining participants' share, investments are valued at amortized cost. LAMP is designed to be highly liquid to provide immediate access to participants.

The City follows GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which requires the adjustments of the carrying values of investments to fair value, which is based on available market values. The Local Government Investment Pool is a "2a-7-like" pool in accordance with GASB Statement No. 31; therefore, it is not presented at fair value but at its actual pooled share price, which approximates fair value.

At December 31, 2007, the City's market value of investments was as follows (amounts in thousands):

	<u>Governmental</u>	<u>Fiduciary</u>	<u>Pension Trust</u>	<u>Total</u>
LAMP	\$ 90,162	\$ 36,680	\$ —	\$ 126,842
U.S. Treasury securities	132,045	—	—	132,045
U.S. Agency securities	50,597	—	34,193	84,790
Corporate bonds	—	—	65,221	65,221
Municipal bonds	72,599	—	—	72,599
Stock and mutual funds	—	—	353,395	353,395
Real estate and real estate funds	—	—	33,161	33,161
Invested in corporations, partnerships, and limited liability corporations	—	—	51,169	51,169
Invested in hedge funds, private equity funds, and fund to fund	—	—	64,240	64,240
Notes receivable	—	—	32,215	32,215
Cash equivalents	—	—	50,544	50,544
Other	—	—	41,700	41,700
Total investments	<u>\$ 345,403</u>	<u>\$ 36,680</u>	<u>\$ 725,838</u>	<u>\$ 1,107,921</u>

Interest Rate Risk – Interest rate risk is the risk that changes in the financial market rates of interest will adversely affect the value of an investment. The City manages interest rate risk for investments under the control of the City by limiting the maximum maturity of investments in accordance with their investment policy. As stated in its investment policy, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, cash will not be invested in securities maturing more than three years from the date of purchase.

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At December 31, 2007, the governmental funds, investment balances and maturities for those investments were as follows (amounts in thousands):

	Investment maturity in years				
	Total	Less than one year	1 - 5	6 - 10	More than 10
U.S. Treasury securities	\$ 132,045	132,045	—	—	—
Corporate bonds	—	—	—	—	—
Municipal bonds	72,599	72,599	—	—	—
U.S. Government Obligations	50,597	14,722	—	—	35,875
Total investments	\$ 255,241	219,366	—	—	35,875

At December 31, 2007, the pension trust funds, investment balances and maturities for those investments subject to interest rate risk were as follows (amounts in thousands):

	Investment maturity in years				
	Total	Less than one year	1 - 5	6 - 10	More than 10
U.S. Treasury securities	\$ 30,802	36	865	5,014	24,887
Corporate bonds	42,997	1,004	10,816	15,889	15,288
Municipal bonds	570	—	268	—	302
U.S. Government Obligations	3,967	—	—	3,967	—
Total investments	\$ 78,336	1,040	11,949	24,870	40,477
Notes receivable	\$ 32,215	11,850	7,328	7,037	6,000
Collateral held under securities lending	\$ 6,247	6,247	—	—	—

Credit Quality Risk – Credit quality risk is the risk that the issuer or other counterparty to a debt security will not fulfill its obligation to the City. The City does not have a policy statement concerning credit quality risk in its investment policy. National rating agencies assess this risk and assign a credit quality rating for most investments. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not assigned credit quality ratings. Credit quality ratings are reported on obligations of U.S. government agencies not explicitly guaranteed by the U.S. government. LAMP has been rated AAA by Standard & Poor's Corporation.

CITY OF NEW ORLEANS, LOUISIANA

Notes to Basic Financial Statements

December 31, 2007

The following table provides information on the credit ratings associated with the pension trust funds, investments in debt securities at December 31, 2007 (amounts in thousands):

	<u>Total</u>	<u>Corporate bonds</u>	<u>Municipal bonds</u>	<u>Government Agency</u>	<u>Government Obligations</u>
AAA	\$ 47,705	12,367	569	30,802	3,967
AA	2,116	2,116	—	—	—
A+	—	—	—	—	—
A	8,909	8,909	—	—	—
A-	—	—	—	—	—
BBB+	—	—	—	—	—
BBB	8,078	8,078	—	—	—
BBB-	—	—	—	—	—
BB+	—	—	—	—	—
BB	611	611	—	—	—
BB-	548	548	—	—	—
B+	128	128	—	—	—
B	2,539	2,539	—	—	—
B-	1,811	1,811	—	—	—
CCC+	1,154	1,154	—	—	—
CCC	1,446	1,446	—	—	—
CCC-	490	490	—	—	—
CC	337	337	—	—	—
C	196	196	—	—	—
D	32	32	—	—	—
Not rated	2,236	2,236	—	—	—
Total	\$ 78,336	42,998	569	30,802	3,967

Custodial Credit Risk—Custodial credit risk for investments is the risk that, in the event of a failure, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if they are uninsured, are not registered in the City's name, and are held by either the counterparty to the investment purchase or are held by the counterparty's trust department or agent but not held in the City's name. None of the City and MERP pension trust fund's investments owned at December 31, 2007, were subject to custodial credit risk.

The City has no formal investment policy regarding custodial credit risk.

At December 31, 2007, the Firefighter's new system cash collateral held under the securities lending program in the amount of \$6,246,647 is exposed to custodial credit risk since the collateral is not in the name of the fund.

Concentration of Credit Risk—The City's investment policy does not allow for more than 25% of the total investment portfolio to be invested in a single security type with the exception of U.S. Treasury securities, bank certificates of deposit, and authorized pools. As of December 31, 2007, management believes all investments were in compliance with this policy. All of the City's investments are issued or explicitly guaranteed by the U.S. government or are held in LAMP and are not subject to concentration of credit risk.

CITY OF NEW ORLEANS, LOUISIANA

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The MERP pension trust fund's investment policy mandates the maximum limits on position held with each assets class as follows: equities (65%), fixed income (55%), and alternative investments (10%). As of December 31, 2007, all MERP investments were in compliance with this policy.

The Firefighter's Pension and Relief Fund's investment policy states that no more than 25% of the equity portfolio market value may be invested in any single industry. The equity holdings in any single corporation shall not exceed 5% of the market value of the equity portfolio at any time. In addition, no more than 5% of total fund assets are market may be invested in any one issuer's securities (exclusive of issues of the U.S. Treasury or other federal agencies). At December 31, 2007, there were no investment holdings that exceeded the fund's concentration of credit risk investment policy.

Securities Lending Transactions – The Board of Trustees of the Firefighter's Pension and Relief Fund authorized the fund to enter into a securities lending program. These agreements consist of the loan of stock and bonds with a simultaneous agreement to reacquire the same loaned security in the future plus a contract rate of interest. The Fund requires the dealer to transfer cash or collateral of no less than 100% of the market value of the securities underlying the securities lending agreements.

In cases of security loans in which the collateral received by the fund is cash, the fund is able to reinvest the cash under the agreement with the dealer. When this occurs the collateral is reported as an asset with a corresponding liability. If the fund receives collateral other than cash, it may not reinvest the collateral. When this occurs, the fund does not record the collateral on the financial statements. In both cases, the loaned securities continue to be reported as an asset on the balance sheet and in Note 7. The cash collateral was invested in cash equivalents and fixed income securities at December 31, 2007. The maturities of these investments match the maturities of the securities loans.

At year end, the fund has no credit risk exposure to borrowers because the amounts the borrowers owe the Fund exceed the amounts the Fund owes the borrowers. The fund cannot pledge or sell collateral securities received unless the borrower defaults.

(4) Tax Revenues

At December 31, 2007, the total sales tax levied in the City is 9%, of which 4% is state sales tax, 1.5% is levied by the Orleans Parish School Board (the School Board), and 1% is dedicated for transportation and is levied by the Regional Transit Authority (RTA). The remaining 2.5% is used to fund the general operations of the City. The City administers and collects the entire 5% of local sales tax. The School Board's portion of the sales tax is accounted for in the Orleans Parish School Board sales tax clearing fund, and the RTA's portion of the sales tax is accounted for in the RTA sales tax clearing fund, both of which are agency funds.

The City levies a tax on real and personal property. Portions of these property taxes are dedicated for fire and police protection services and the public library system. Taxes on real and personal property are levied on January 1 of the assessment year based upon the assessed value as of the prior August 15. However, before the tax can be levied, the tax rolls must be submitted to the State Tax Commission for approval. Taxes are due and payable on January 1, the date on which an enforceable lien attaches on the property, and are delinquent on February 1.

CITY OF NEW ORLEANS, LOUISIANA

Notes to Basic Financial Statements

December 31, 2007

The assessed value of property in the City for each year is determined by an elected Board of Assessors. It is then certified by the Louisiana Tax Commission as complying with the Louisiana Constitution of 1974. The City is permitted by the Louisiana statutes to levy taxes up to \$31.78 per \$1,000 of assessed valuation for general governmental services (including fire and police) other than the payment of principal and interest on long-term debt and other purposes specifically approved by the voters. It is permitted to levy taxes in unlimited amounts for the payment of principal and interest on general obligation bonds of the City.

Property tax levies per \$1,000 of assessed valuation accounted for within the funds of the City (primary government only) for the year ended December 31, 2007 are as follows:

General:

General governmental services	\$	14.91
Dedicated for fire and police		6.40
Public library		4.32
Fire and police, without applying homestead exemption		10.47
Parkways and parks and recreation department		3.00
Street and traffic control device maintenance		1.90
Act 44		1.19
Special revenue:		
Neighborhood housing improvement fund		1.25
New Orleans economic development fund		1.25
Capital Improvement and Infrastructure		2.50
Debt service		31.70
	\$	<u>78.89</u>

Property taxes levied on January 1, 2007, collected during 2007, or expected to be collected within the first 60 days of 2008, are recognized as revenues in the statement of revenues, expenditures, and changes in fund balances – governmental funds. The entire estimated collectible amount of the tax levy for the fiscal year is recorded as revenue in the government-wide financial statements. Property taxes paid under protest are held in escrow until resolution of the dispute. Amounts collected for other governmental entities are accounted for in the agency funds.

(5) Grantee Loans

The City's grantee loan balances at December 31, 2007 are as follows (amounts in thousands):

	Gross	Allowance	Net
UDAG	\$ 6,473	(4,744)	1,729
HUD - nonmajor governmental fund	41,463	(36,661)	4,802
Total grantee loans	\$ 47,936	(41,405)	6,531

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Notes to Basic Financial Statements

December 31, 2007

(a) UDAG

The City has received certain grant awards or loans from the HUD for the purposes of providing loans to the private sector for completion of projects that will stimulate economic development activity in the City. Fourteen individual loans are outstanding at December 31, 2007 totaling \$6,473,000, which bear interest at rates ranging from .1% to 7.0%. These loans are receivable over a 15- to 30-year period. Once loan repayments are received, and the project is accepted by HUD, the City may use the amounts received for other allowable economic development activities specified in the grant agreement. The City has recorded \$4,744,000 in allowance for bad debt on these loans.

During the year the City received a prepayment of \$20.5 million from New Orleans Riverwalk Associates (NORA). The original amount of \$6,980,000, relates to the development of the Riverfront Marketplace. In addition to the stated interest of 6.55% on this loan, the City participates in 30% of the net annual cash flows of the project. The City's participation interest is receivable 90 days after the project's year-end. This brings the cumulative annual effective yield on the loan up to a maximum of 10%. The cumulative annual effective yield on the loan cannot be less than 8.0%. The agreement provided that the City participate in 30% of the net proceeds of any sale, refinancing, or other disposition of the project, in whole or in part. The Riverfront Marketplace began operations in September 1986. In 2007, the City received approximately \$20.5 million in proceeds, of which \$6 million was recorded as a receivable in 2006 and the remaining \$14.5 was recorded as miscellaneous and other revenue. Under the terms of the agreement, the prepayment amount is in full satisfaction of all obligations and indebtedness of NORA pursuant to this loan and thus the City's receivable balance has been eliminated as of the year ended December 31, 2007. No amounts were outstanding as of December 31, 2007.

(b) HUD Section 108

The City received a Section 108 loan from HUD to allow/provide loans to the private sector for economic development. At December 31, 2007, there were four outstanding loans which bear interest at rates of 2% to 7% and are receivable over 15 to 30 years.

During 1998, HUD agreed to loan to the City \$24,375,000 for the development of the Jazzland Theme Park. These funds were subsequently loaned to Jazzland, Inc. (Jazzland) and were due from Jazzland in bi-annual installments plus 7.87% interest. During 2001, Jazzland failed to remit to the City a required payment and was in default on its loan as of December 31, 2001. On February 28, 2002, Jazzland filed for bankruptcy under Chapter 11 of the United States Bankruptcy Code. As a result, the City wrote off its remaining receivable from Jazzland. In 2002, Six Flags Theme Park, Inc. assumed management of Jazzland, and the theme park was renamed "Six Flags New Orleans." Six Flags had agreed to make monthly lease payments of \$116,667 to the Industrial Development Board (IDB), which in turn, would transfer the money to the City. The payments by the IDB are being made to the City. The lease expires in 2017. These moneys are to be used by the City to repay the HUD loan. Annual debt service on the loan is \$2,400,000 through 2017. The City has recorded \$24,375,000 in allowance for bad debt on these loans.

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Notes to Basic Financial Statements

December 31, 2007

During 2000, HUD agreed to loan to the City \$5,000,000 for the development of the old American Can Factory into apartments. The City subsequently loaned these funds and an additional \$1,500,000 (amount received by the City through Urban Development Action Grants) to Historic Restoration, Inc. (HRI). These funds are due from HRI in quarterly installments plus 2% interest. The final payment is due January 1, 2040, with principal payments commencing on April 1, 2003. The outstanding balances at December 31, 2007 are \$4,802,000 on the HUD loan and \$986,000 on the UDAG loan.

During 2002, HUD agreed to loan to the City \$5,000,000 for the development of the Palace of the East. The City subsequently loaned these funds to the Palace of the East. The loan is due to be repaid in quarterly installments plus 6% interest. The final payment is due on August 1, 2021, with principal payments commencing on July 15, 2004. The outstanding balance at December 31, 2007 is \$4,823,000. No payments were received during the year ended December 31, 2007. The City has recorded an allowance of \$4,823,000 against this loan.

During 2002, HUD agreed to loan to the City \$7.1 million for the development of the Louisiana Artists Guild, a Louisiana Nonprofit Corporation. The City subsequently loaned these funds to LA Artworks. The loan is due to be repaid in quarterly installments plus interest of 5.6183%. Principal payments commenced on October 15, 2003 and end on July 15, 2022. The outstanding balance at December 31, 2007 is \$7,463,000. No payments were received during the year ended December 31, 2007. The City has recorded an allowance of \$7,463,000 against this loan.

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Notes to Basic Financial Statements

December 31, 2007

(6) Capital Assets

A summary of changes in capital assets of governmental activities (amounts in thousands) is as follows:

	Balance January 1, 2007	Additions	Deletions and adjustments	Transfers	Balance December 31, 2007
Nondepreciable capital assets:					
Land	\$ 103,522	—	—	—	103,522
Construction in progress	74,856	54,513	—	(33,060)	96,309
Total nondepreciable capital assets	178,378	54,513	0	(33,060)	199,831
Depreciable capital assets:					
Infrastructure	2,273,297	—	0	30,633	2,303,930
Buildings and improvements	215,228	—	(54,283)	2,427	163,372
Equipment and vehicles	67,660	2,641	(1,352)	—	68,949
Other	41,896	—	—	—	41,896
Total depreciable capital assets	2,598,081	2,641	(55,635)	33,060	2,578,147
Less accumulated depreciation for:					
Infrastructure	1,342,498	60,534	0	—	1,403,032
Buildings and improvements	107,229	6,129	(20,067)	—	93,291
Equipment and vehicles	35,466	9,189	(791)	—	43,864
Other	21,352	1,690	—	—	23,042
Total accumulated depreciation	1,506,545	77,542	(20,858)	—	1,563,229
Total depreciable capital assets, net	1,091,536	(74,901)	(34,777)	33,060	1,014,918
Total	\$ 1,269,914	(20,388)	(34,777)	—	1,214,749

Depreciation expense was charged to functions/programs of the primary government as follows (amounts in thousands):

General government	\$ 10,723
Public safety	4,595
Public works	60,534
Culture and recreation	1,690
Total depreciation expense	\$ 77,542

(7) Long-Term Debt

Debt Service Fund

The City's debt service fund is the Board, City Debt (the Board of Liquidation), an autonomous, self-perpetuating board created under the State of Louisiana Constitution of 1974. All property taxes levied

CITY OF NEW ORLEANS, LOUISIANA

Notes to Basic Financial Statements

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by the City and dedicated to the payment of outstanding general obligation bonds are collected by the City and, as required by law, paid over to the Board of Liquidation as collected.

The Board of Liquidation annually determines the amount of property tax millage necessary to be levied and collected by the City in the next fiscal year for the payment during such year of principal and interest on all outstanding general obligation bonds of the City, and all such bonds proposed to be issued by the City during such year. The annual determination of the necessary tax millage to service bonds of the City is adopted by resolution of the Board of Liquidation, which is submitted to the City Council. The millage recommended by the Board of Liquidation is then levied by the City Council. The millages for the various limited bonds of the City were established at the time the bonds were issued, based upon approval of the voters. Administrative expenditures paid in connection with the operations of the Board of Liquidation are recorded in the City's Debt Service fund.

Bond Transactions

The City issues general obligation bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Bonds payable, excluding unamortized premium of \$10,886,000, at December 31, 2007 comprise the following (all bonds are serial bonds) (amounts in thousands):

<u>Description</u>	<u>Original issue</u>	<u>Range of average interest rates</u>	<u>Amount outstanding</u>	<u>Due in one year</u>
General obligation bonds:				
1998-2007 Public Improvement				
Bonds, due in annual installments ranging from \$3,645 to \$11,990 through December 2036	\$ 297,400	4.0 - 7.0%	\$ 215,465	3,645
1991 General Obligation Refunding				
Bonds, due in annual installments ranging from \$3,839 to \$9,964 commencing in September 2004 through September 2018	98,886	6.7 - 7.1%	62,354	7,944
1998 General Obligation Refunding				
Bonds, due in annual installments ranging from \$210 to \$13,080 through December 2026	106,520	3.7 - 5.5%	97,000	2,970
2002 General Obligation Refunding				
Bonds, due in annual installments ranging from \$300 to \$19,950 commencing on September 1, 2015 through September 1, 2021	58,415	5.1%	58,415	—

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Notes to Basic Financial Statements

December 31, 2007

Description	Original issue	Range of average interest rates	Amount outstanding	Due in one year
General obligation bonds, continued:				
2005 General Obligation Refunding Bonds, due in annual installments ranging from \$275 to \$8,795 commencing in December 2009 through December 1, 2029	\$ 105,280	3.0 – 5.25%	\$ 105,280	—
Limited tax bonds:				
2005 Limited Tax Bonds, due in annual installments of \$1,450 to 2,900 commencing in March 2006 though March 1, 2021	33,000	3.0-5.0%	30,045	1,565
Revenue bonds:				
2000 Taxable Pension Revenue Bonds, due in annual installments from \$3,600 to \$7,000 commencing on September 1, 2001 through September 1, 2030	170,660	6.95	138,360	5,675
2004 Variable Rate Revenue Bonds, due in annual installments from \$355 to \$865 commencing on August 1, 2005 through August 1, 2024	11,500	Variable	10,380	410
Total bonds			717,299	22,209
Accreted bond discount at December 31, 2007			130,742	—
			\$ 848,041	22,209

In November 2004, the City received approval from taxpayers to issue \$260,000,000 in General Obligation Bonds. The City issued \$75,000,000 in face amount of these authorized General Obligation Bonds in December 2007 at a premium of \$147,000, proceeds of which were transferred to the Capital Projects Fund.

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Notes to Basic Financial Statements

December 31, 2007

The payment requirements for all bonds outstanding, including accretion on the 1991 General Obligation Bonds of \$130,742,000 (included in interest payments) as of December 31, 2007, are as follows (amounts in thousands):

	<u>Interest</u>	<u>Principal</u>
Year ending December 31:		
2008	\$ 53,306	22,209
2009	53,238	23,953
2010	52,768	27,130
2011	52,089	27,660
2012	51,330	28,167
2013 – 2017	243,154	152,696
2018 – 2022	113,994	225,214
2023 – 2027	43,714	115,885
2028 – 2032	16,223	70,235
2033 – 2036	2,731	24,150
	<u>\$ 682,547</u>	<u>717,299</u>

The City's legal debt limit for General Obligation Bonds is \$992,049,000. At December 31, 2007, the City's legal debt margin adjusted for outstanding principal of \$538,514,000 and past and future accretion of \$217,541,000 on the City's outstanding General Obligation Bonds, plus net assets available in the Debt Service Fund of \$41,764,000 to service this debt was \$277,758,000.

The various bond indentures contain significant limitations and restrictions on annual debt service requirements, maintenance of and flow of moneys through various restricted accounts, minimum amounts to be maintained in various sinking funds, and minimum revenue bond coverages. At December 31, 2007, management believes it is in compliance with all financial related covenants.

Revenue Bonds

Included in bonds payable are The Firefighters' Pension and Relief Fund (Old System) Bonds which were issued in 2000 to fund a portion of the projected unfunded accrued liability for the pension plan. The bonds are secured and payable solely from moneys that are available after payment of contractual and statutory obligations and other required expenses, including outstanding certificates of indebtedness. The bonds bear interest at a variable rate determined weekly based on the Bond Market Association Municipal Swap Index™ (BMA); however, the City entered into an interest rate swap agreement over the term of the bonds, which resulted in a fixed rate of 6.95%. As of December 31, 2007, \$138,360,000 in outstanding bonds was recorded as a liability in the government-wide financial statements. The swap terminates in September 2030.

Objective of the interest rate swap. As a means of lowering its borrowing costs, when compared against fixed-rate bonds at the time of issuance in 2000, the City entered into an interest rate swap in connection with its \$170.6 million Taxable Pension Variable-Rate Revenue Bonds. The intention of the swap was to effectively change the City's variable interest rate on the bonds to a synthetic fixed rate of 6.95%.

CITY OF NEW ORLEANS, LOUISIANA

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Terms. The bonds and the related swap agreement mature on September 1, 2030, and the swap's notional amount of \$171 million matches the \$171 million variable-rate bonds. The swap was entered at the same time the bonds were issued (November 2000). Starting in fiscal year 2001, the notional value of the swap and the principal amount of the associated debt decline. Under the swap, the City pays the counterparty, UBS, a fixed payment of 6.95% and receives a variable payment computed weekly based on the BMA swap index.

Fair value. Because interest rates have declined since execution of the swap, the swap had a negative fair value of \$23.6 million as of December 31, 2007. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Credit risk. As of December 31, 2007, the City was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the City would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated AAA/aaa by Moody's Investors Service as of December 31, 2007.

Termination risk. The City or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. The swap may be terminated by the City if the counterparty's credit quality rating falls below "A-" as issued by Moody's Investors Service. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value. If at the time of termination the swap has a positive fair value, the City would receive a cash payment.

The following is a summary of the interest rate swap transactions (amounts in thousands):

	Swap	Interest	Principal	Total
Year ending December 31:				
2008	\$ 2,560	7,056	5,675	15,291
2009	2,455	6,767	5,950	15,172
2010	2,345	6,463	6,175	14,983
2011	2,230	6,149	6,450	14,829
2012	2,111	5,820	6,625	14,556
2013 - 2017	8,680	23,929	34,475	67,084
2018 - 2022	5,484	15,119	33,600	54,203
2023 - 2027	2,555	7,044	27,900	37,499
2028 - 2032	394	1,087	11,510	12,991
	<u>\$ 28,814</u>	<u>79,434</u>	<u>138,360</u>	<u>246,608</u>

Certificates of Indebtedness

In 1998, the City issued \$75,205,000, of which \$35,015,000 remained outstanding at December 31, 2007, in certificates of indebtedness (Series 1998B) for the primary purpose of refunding the City's Series 1992 certificates of indebtedness, the City's debt obligation incurred in 1983, and additional debt incurred in

CITY OF NEW ORLEANS, LOUISIANA

Notes to Basic Financial Statements

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1993 under the merger agreement between the Municipal Police Employees' Retirement System (MPERS) and the City's board of trustees of the Police Pension Fund. The certificates bear interest ranging from 4.05% to 5.1%, payable semiannually and will be fully matured on December 1, 2012.

In December 2000, the City issued \$27,000,000, of which \$11,400,000 remained outstanding at December 31, 2007, in certificates of indebtedness (Series 2000) for the primary purpose of paying general settlements and judgments rendered against the City. The certificates bear interest ranging from 5% to 5.5%, payable semiannually and will be fully matured on December 1, 2010.

In January 2002, the City issued \$5,155,000, of which \$3,565,000 remained outstanding at December 31, 2007, in certificates of indebtedness (Series 2001C) for the primary purpose of paying general settlements and judgments rendered against the City. The certificates bear interest ranging from 3.5% to 4.25%, payable semiannually and will be fully matured on February 1, 2011.

In March 2003, the City issued \$38,555,000, of which \$17,510,000 remained outstanding at December 31, 2007, in certificates of indebtedness (Series 2003) for the primary purpose of refinancing the payments of the City under an existing lease agreement financing the costs of acquisition of additional vehicles and paying the costs of issuance. The certificates bear interest ranging from 2.97% to 3.4%, payable semiannually and will be fully matured on March 1, 2010.

In April 2004, the City issued \$4,065,000, of which \$2,590,000 remained outstanding at December 31, 2007, in limited tax certificates of indebtedness (Series 2004) for the primary purpose of financing the costs of acquisition of additional vehicles and paying the costs of issuance. The certificates bear interest ranging from 2% to 3.5%, payable semiannually and will be fully matured on April 1, 2011.

In December 2004, the City issued \$40,415,000, of which \$38,650,000 remained outstanding at December 31, 2007, in limited tax certificates of indebtedness (Series 2004B) for the primary purpose of financing the partial defeasance of the 1998B Certificates, financing judgment claims against the City, and paying the costs of issuance. The certificates bear interest ranging from 3.15% to 4.75%, payable semiannually and will be fully matured on March 1, 2014.

During 2005, the City issued \$2,050,000, of which \$1,435,000 remained outstanding at December 31, 2007, in certificates of indebtedness (Series 2005) for the primary purpose of paying costs to repair trackage for rail car storage and to make infrastructure improvements in connection with the CG Rail Project. The certificates bear interest of 3.59%, payable semiannually and will be fully matured on December 1, 2014.

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Notes to Basic Financial Statements

December 31, 2007

The requirements to amortize the certificates of indebtedness are as follows (amounts in thousands):

	<u>Interest</u>	<u>Principal</u>
Year ending December 31:		
2008	\$ 4,909	16,750
2009	4,176	18,110
2010	3,345	19,845
2011	2,462	14,590
2012	1,765	14,855
2013 – 2017	1,245	26,015
	<u>\$ 17,902</u>	<u>110,165</u>

Loans Payable

The City has entered into a Community Disaster Loan (CDL) agreement with the Federal Emergency Management Agency (FEMA) to assist in paying current operations as a result of Hurricane Katrina. During 2005, the City was authorized to draw down \$120,000,000. As of December 31, 2005, the City has drawn down \$61,396,000 and the full \$120,000,000 at December 31, 2006. During 2006, the City was authorized a new \$120,000,000 CDL of which \$17,611,000 was drawn down at December 31, 2006. The City drew down \$32,748,000 during the year ended December 31, 2007. The City has pledged as collateral future revenues from anticipated taxes. The two CDL's, which accrue interest at a rate of 2.75% and 2.93%, are due at the end of five years but can be extended for an additional five years. Interest in the amount of \$16,100,000 and \$6,040,000 will be due on the outstanding principal balance in 2010 and 2011, respectively. Accrued interest through the year ended December 31, 2007 was \$7,318,000.

The City entered into a cooperative endeavor agreement with the State of Louisiana to provide for the issuance of general obligation bonds of the State of Louisiana (GO Zone Series) to fund the debt service assistance loan program, which will make scheduled debt service payments on behalf of the City for certain issues of outstanding debt. The city borrowed \$35,533,000 and \$23,550,000 for the years ended December 31, 2006 and 2007, respectively. The loans are payable beginning in 5 years in equal installments over 15 years commencing in 2012. Interest is deferred during the initial 5 year period and then accrues at a rate of 4.64% during the repayment period.

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Notes to Basic Financial Statements

December 31, 2007

The requirements to amortize the debt service assistance loan are as follows (amounts in thousands):

	<u>Interest</u>	<u>Principal</u>
Year ending December 31:		
2008	\$ —	—
2009	—	—
2010	—	—
2011	—	—
2012	2,741	2,813
2013–2017	11,624	16,149
2018–2022	7,513	20,259
2023–2026	2,356	19,862
	<u>\$ 24,234</u>	<u>59,083</u>

Other Long-Term Liabilities

The City has entered into contracts for Loan Guarantee Assistance under Section 108 of the Housing and Community Development Act of 1974, with the Secretary of HUD as guarantor. Portions of these funds were used to fund grantee loans referred to in Note 5. The loans consist of notes bearing interest at either fixed interest rates ranging from 5.225% to 8% or variable interest rates based upon the London Interbank Offered Rate (LIBOR). As of December 31, 2007, \$32,405,000 is recorded as a liability in the government-wide financial statements.

The requirements to amortize the Section 108 loans are as follows (amounts in thousands):

	<u>Interest</u>	<u>Principal</u>
Year ending December 31:		
2008	\$ 2,018	2,061
2009	1,902	2,182
2010	1,777	2,318
2011	1,640	2,456
2012	1,493	2,610
2013–2017	4,784	15,748
2018–2022	835	5,030
	<u>\$ 14,449</u>	<u>32,405</u>

On October 15, 2000, the City entered into an agreement with a vendor to purchase heating, ventilation and air cooling (HVAC) equipment under a 20 year capital lease. The City entered into two similar subsequent agreements with this vendor on June 1, 2001 and February 15, 2002 primarily for the purpose of purchasing additional HVAC equipment and traffic lights, respectively. The original net present value of these capital leases were \$9,625,000, \$17,912,000 and \$6,248,000 with corresponding interest rates of 7.8%, 7.1% and 6.5%, respectively. Under terms of the agreement, title to this equipment is to transfer to the City at the end of the lease. The contracts provided for a guaranteed energy savings component, which when combined with certain other savings, stipulated by the City, would exceed the debt service

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requirements on this capital lease. Following Hurricane Katrina, the City and the vendor agreed to amend their original agreement to remove the guaranteed savings component and to reduce the monthly maintenance contract. This liability and the related asset were not previously recorded on the City's books. The HVAC equipment under the leases dated in 2000 and 2001, were recorded as Buildings and Improvements (Note 6) and depreciated over 20 years, with an adjustment made for estimated impairment from Hurricane Katrina. As the traffic light equipment was substantially destroyed in 2005, these assets were not recorded on the City's books.

The requirements to amortize the Capital Leases are as follows (amounts in thousands):

	<u>Interest</u>	<u>Principal</u>
Year ending December 31:		
2008	\$ 2,009	1,223
2009	1,921	1,311
2010	1,826	1,406
2011	1,724	1,508
2012	1,615	1,660
2013 - 2017	6,055	10,529
2018 - 2022	1,772	11,078
	<u>\$ 16,922</u>	<u>28,715</u>

The City has recorded \$43,970,000 in accrued annual and sick leave in accordance with its pay-out policies. In October 2005, the City laid off approximately one-third of its workforce. During the year active employees earned and used approximately \$26 million and \$18 million in sick and vacation leave benefits, respectively. The City paid approximately \$14 million to terminated employees, including approximately \$5.6 million previously accrued in the General Fund, during the year ended December 31, 2007. The entire annual and sick liability is recorded in the government wide statements and no liability is recorded in the governmental funds.

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Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2007 was as follows (amounts in thousands):

	January 1, 2007	Additions	Deletions	December 31, 2007	Due in one year
Claims and judgments (note 12)	\$ 259,475	37,433	(68,307)	228,601	27,506
Landfill closing costs (note 12)	12,425	135	-	12,560	264
Accrued annual and sick leave	41,391	26,304	(23,725)	43,970	5,000
Revenue bonds	154,505	-	(5,765)	148,740	6,085
Certificates of indebtedness	125,060	-	(14,895)	110,165	16,750
General obligation bonds (a)	611,930	89,101	(31,775)	669,256	16,410
Limited tax bonds	31,550	-	(1,505)	30,045	1,565
Deferred loss on refunding	(4,094)	-	347	(3,747)	(347)
Premium on bonds payable	11,740	147	(1,001)	10,886	998
Discount on bonds payable	(619)	-	48	(571)	(48)
Community Disaster Loan	137,610	32,748	-	170,358	-
Debt Service Assistance Program	35,533	23,550	-	59,083	-
Notes Payable	4,375	-	(810)	3,565	840
HUD Section 108 loan	34,336	-	(1,931)	32,405	2,061
Capital leases	29,855	-	(1,140)	28,715	1,223
Net pension obligation	16,367	17,685	-	34,052	-
Post-employment benefit	-	30,778	(12,335)	18,443	-
	<u>\$ 1,501,439</u>	<u>257,881</u>	<u>(162,794)</u>	<u>1,596,526</u>	<u>78,307</u>

(a) Additions and deletions include amounts related to accretion of 1991 Refunding Series of 14,101 and (16,870), respectively.

The above liabilities will be repaid from the General Fund, except for HUD Section 108 loans, which will be repaid from the UDAG Fund, and the General Obligation and Limited Tax Bonds and a portion of the Debt Service Assistance Loan Program, which will be repaid from the Debt Service Fund. The Board of Liquidation handles all the bonded debt of the City and results of its operations are reported in the debt service fund. For the year ended December 31, 2007, the debt service fund had \$73.3 million in fund balance reserved to service this debt.

(8) Pension Plans and Postretirement Healthcare Benefits

At December 31, 2007, the City sponsors and administers four separate single-employer, contributory defined benefit pension plans, namely: (1) Firefighters' Pension and Relief Fund – Old System; (2) Firefighters' Pension and Relief Fund – New System; (3) Police Pension Plan (Police Plan); and (4) Employees' Retirement System of the City of New Orleans (Employees' Plan). The Old System covers firefighters who were employed prior to December 31, 1967; the New System covers firefighters hired since that date. Effective March 6, 1983, all members of the Police Plan, active and retired, except for approximately 250 participants who did not meet the eligibility requirements, became members of the Municipal Police Employees' Retirement System (State of Louisiana) (MPERS). The Police Plan of the City will remain responsible for the payment of certain benefits due to differences in length of service and age requirements for the participants who were not transferred to the MPERS plan. MPERS is the only cost-sharing, multiple-employer retirement plan in which employees of the City participate. The Employees' Plan covers all City employees other than firefighters and police.

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All four plans use the accrual basis of accounting for changes in net assets. Within this context, interest income is recognized when earned, as are employer and employee contributions, except in the case of the Police Plan, which recognizes employer contributions when due from the City. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

MPERS Plan Description

On March 6, 1983, an agreement was signed among the City, the Police Pension Funds of the City of New Orleans, and the MPERS, which provided for the merger of the Police Pension Plans with the MPERS. As of that date, all members of the Police Pension Plans, active and retired, became members of the MPERS. Those members covered by the system who did not meet the age and service requirements of the MPERS will be paid by the Police Pension Fund of the City until they reach age 50 or 55, depending on the length of active service. The MPERS is a defined benefit pension plan established by a State of Louisiana statute.

Employees become eligible for retirement under the MPERS plan at age 50, after being a member of the plan for 1 year and after 20 years of active continuous service. An employee who is age 55 becomes eligible for retirement benefits after 16 years of active continuous service. The plan also provides death and disability benefits. Authority to establish and amend benefit provisions is provided under the laws of the State of Louisiana. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the MPERS. That report may be obtained by writing to the Municipal Police Employees' Retirement System, 8401 United Plaza Boulevard, Room 270, Baton Rouge, Louisiana 70809, or by calling (800) 443-4248.

Funding Policy

The contribution rate for MPERS per dollar of payroll is 7.5% and 13.75% for the employee and employer, respectively, as established by the State of Louisiana statute. Prior to July, 1 2007, the employer contribution rate was 15%. The City's contributions to the MPERS for the years ended December 31, 2007, 2006, and 2005 were \$4,894,439 \$4,534,052, and \$6,396,000, respectively, equal to the required contributions for each year.

Employees' Plan, Police Plan, Firefighters' Pension and Relief Fund – Old and New System Descriptions

Each plan is a defined benefit pension plan established by the State of Louisiana statute, which provide retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and beneficiaries. Authority to establish and amend benefit provisions is provided under the laws of the State of Louisiana. Each plan issues a publicly available financial report that includes financial statements and required supplementary information for that plan. Those reports may be obtained by writing or calling the plan.

Employees' Retirement System of the City of New Orleans
1300 Perdido Street, Suite 1E12
New Orleans, Louisiana 70112
(504) 658-1850

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Police Pension Fund of the City of New Orleans
715 S. Broad, Room B23
New Orleans, Louisiana 70119
(504) 826-2900

Firefighters' Pension and Relief Fund of the
City of New Orleans (Old and New Systems)
329 S. Dorgenois Street
New Orleans, Louisiana 70119
(504) 821-4671

Funding Policies and Annual Pension Costs

The employer contributions for the MPERS and the Firefighters' Pension and Relief Fund (New System) are based on actuarially determined amounts. The employer contribution for the Police Pension Fund is based on amounts necessary to cover administrative costs and payments of pensions and benefits, as certified by the board of trustees of the Fund. The employer contribution for the Firefighters' Pension and Relief Fund (Old System) is based on amounts necessary to pay current expenses, and, in effect, is being funded on a "pay-as-you-go" basis. In December 2000, the City issued \$170,660,000 of taxable pension revenue bonds to fund the projected unfunded accrued liability of the Firefighters' Pension and Relief Fund (Old System). Debt service is to be paid from the General Fund. Employees covered under the MPERS contribute 4% of their earnable compensation to the plan. Employees covered under the Firefighters' Pension and Relief Fund of the City of New Orleans (Old and New Systems) contribute 6% of salary for the first 20 years of employment.

As a result of the merger contract with the MPERS to transfer all active policemen who were participating in the City's Police Pension Fund to MPERS, there were no active participants in the plan and therefore the only contributions by employees to the plan related to retirees' contributions for the purchase of military service credit. The City's annual pension cost for the current year and related actuarial methods and assumptions for each plan is as follows (amounts in thousands):

	Employees' Retirement System	Police Pension Fund	Firefighters' Pension and Relief Fund (Old System)	Firefighters' Pension and Relief Fund (New System)
Annual required contribution (thousands)	\$ 9,428	—	18,609	11,137
Annual pension cost (thousands)	9,428	—	17,116	10,869
Contributions made (thousands)	4,894	—	—	10,300
Actuarial valuation date	1/1/07	12/31/07	12/31/07	12/31/07
Actuarial cost method	Frozen entry age actuarial cost method	Entry age normal cost method	Entry age normal cost method	Aggregate actuarial cost method

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	Employees' Retirement System	Police Pension Fund	Firefighters' Pension and Relief Fund (Old System)	Firefighters' Pension and Relief Fund (New System)
Amortization method	(a)	(b)	Specific number of years – level amount, closed	(c)
Remaining amortization period	(a)	(b)	7 years	(c)
Asset valuation method	Market value	Cost which approximates market	Market value	Three-year averaging
Actuarial assumptions:				
Investment rate of return	7.75%	7.00%	7.50%	7.50%
Projected salary increases	4.50	NA	5.00	5.00

- (a) The amortization period for the year, which ended on December 31, 2007, is being maintained. Beginning with the January 1, 1992 actuarial valuation, the amortization amount was "frozen" and is equal to the 12-year remaining amortization amount over the period January 1, 1992 through December 31, 2007.
- (b) The "Entry Age Normal" cost method was used to calculate the funding requirements of the Fund. Under this cost method, the actuarial present value of projected benefits of each individual included in the valuation is allocated on a level basis as a percentage of payroll for each participant between entry age and assumed retirement age.
- (c) The aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities.

Annual Pension Cost, Prepaid Pension Asset, and Net Pension Obligation – The City's annual pension cost (APC), prepaid pension asset (PPA), and net pension obligation (NPO) to Firefighters' Pension and Relief Fund (Old System and New System) for the current year are as follows (amounts in thousands):

	Firefighters' Pension and Relief Fund (Old System)	Firefighters' Pension and Relief Fund (New System)
Annual required contribution	\$ 18,609	11,137
Interest on PPA (NPO)	1,040	187
Adjustment to annual required contribution	<u>(2,533)</u>	<u>(455)</u>
Annual pension cost	17,116	10,869
Contributions made	<u>-</u>	<u>10,300</u>
Decrease (increase) in PPA (NPO)	(17,116)	(569)
PPA (NPO), beginning of year	<u>(13,874)</u>	<u>(2,493)</u>
PPA (NPO), end of year	\$ <u><u>(30,990)</u></u>	<u><u>(3,062)</u></u>

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The NPOs are \$30,990 and \$3,062 respectively, at December 31, 2007, and are recorded in the governmental activities of the government-wide statement of net assets.

	<u>Year ending</u>	<u>APC</u>	<u>of APC contributed</u>	<u>NPO PPA</u>
MPERS	12/31/07	\$ 9,428	52% \$	—
	12/31/06	5,780	78	—
	12/31/05	6,396	100	—
Firefighters' Pension and Relief Fund (Old System)	12/31/07	17,116	—	30,990
	12/31/06	19,697	—	13,874
	12/31/05	21,746	—	(5,823)
Firefighters' Pension and Relief Fund (New System)	12/31/07	10,869	92	3,062
	12/31/06	10,196	92	2,493
	12/31/05	9,231	87	1,637

Postretirement Healthcare Benefits

Plan Description

The vast majority of City employees are covered by one of three primary systems: The Employees' Retirement System of the City of New Orleans (NOMERS), the Louisiana State Municipal Police Employees Retirement System (MPERS), and the New Orleans Firefighters' Pension and Relief Fund (NOFF). The maximum DROP period is five years in NOMERS and NOFF and three years in MPERS. Retirement (DROP entry) eligibility is as follows: in NOMERS, the earliest of 30 years of service at any age; age 60 and 10 years of service; age 65 and 5 years of service; or, satisfaction of the "Rule of 80" (age plus service equals or exceeds 80); in MPERS, the earlier of 25 years of service and age 50 and 20 years of service (in MPERS, DROP entry requires age 55 and 12 years of service or 20 years of service and eligibility to retire); in NOFF, age 50 and 12 years of service. However, because of the "back-loaded" benefit formula in the NOFF plan relative to years of service, the retirement assumption used for that plan was the earliest of age 50 and 30 years of service, age 55 and 25 years of service, and age 60 and 12 years of service.

Contribution Rates

Employees do not contribute to their post employment benefits costs until they become retirees and begin receiving those benefits.

Fund Policy

Until 2007, the City recognized the cost of providing post-employment medical benefits (the City's portion of the retiree medical benefit premiums) as an expense when the benefit premiums were due and thus financed the cost of the post-employment benefits on a pay-as-you-go basis. In 2007, The City's portion of health care funding cost for retired employees totaled \$12,335,359.

Effective with the Fiscal Year beginning January 1, 2007, the City implemented Government Accounting Standards Board Statement Number 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other than Pensions* (GASB 45).

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Annual Required Contribution

The City's Annual Required Contribution (ARC) is an amount actuarially determined in accordance with GASB 45. The Annual Required Contribution (ARC) is the sum of the Normal Cost plus the contribution to amortize the Actuarial Accrued Liability (AAL). A level dollar, closed amortization period of 30 years (the maximum amortization period allowed by GASB 43/45) has been used for the post-employment benefits. The total ARC for the fiscal year beginning January 1, 2007 is \$30,778,145, as set forth below:

	<u>Medical</u>
Normal Cost	\$ 7,737,309
30-year UAL amortization amount	<u>23,040,836</u>
Annual required contribution (ARC)	<u>\$ 30,778,145</u>

Net Post-employment Benefit Obligation (Asset)

The table below shows the City's Net Other Post-employment Benefit (OPEB) Obligation (Asset) for fiscal year ending December 31, 2007:

	<u>Medical</u>
Beginning Net OPEB Obligation (Asset) 1/1/2007	\$ -
Annual required contribution	30,778,145
Current year retiree premium	<u>(12,335,359)</u>
Ending Net OPEB Obligation (Asset) 12/31/2007	<u>\$ 18,442,786</u>

The following table shows the City's annual post employment benefits (PEB) cost, percentage of the cost contributed, and the net unfunded post employment benefits (PEB) liability (asset):

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual Cost Contributed</u>	<u>Net PEB Liability (Asset)</u>
December 31, 2007	\$30,778,145	40.08%	\$18,442,786

Funded Status and Funding Progress

In the fiscal year ending December 31, 2007, The City made no contributions to its post employment benefits plan. The plan was not funded at all, has no assets, and hence has a funded ratio of zero. As of January 1, 2007, the first and most recent actuarial valuation, the Actuarial Accrued Liability (AAL) was \$398,422,234, which is defined as that portion, as determined by a particular actuarial cost method (the City uses the Unit Credit Cost Method), of the actuarial present value of post employment plan benefits and expenses which is not provided by normal cost. Since the plan was not funded in fiscal year 2007, the entire actuarial accrued liability of \$398,422,234 was unfunded.

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Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. The actuarial valuation for post employment benefits includes estimates and assumptions regarding (1) turnover rate; (2) retirement rate; (3) health care cost trend rate; (4) mortality rate; (5) discount rate (investment return assumption); and (6) the period to which the costs apply (past, current, or future years of service by employees). Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The actuarial calculations are based on the types of benefits provided under the terms of the substantive plan (the plan as understood by the City and its employee plan members) at the time of the valuation and on the pattern of sharing costs between the City and its plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the City and plan members in the future. Consistent with the long-term perspective of actuarial calculations, the actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial liabilities and the actuarial value of assets.

Actuarial Cost Method

The ARC is determined using the Unit Credit Cost Method. The employer portion of the cost for retiree medical care in each future year is determined by projecting the current cost levels using the healthcare cost trend rate and discounting this projected amount to the valuation date using the other described pertinent actuarial assumptions, including the investment return assumption (discount rate), mortality, and turnover.

Actuarial Value of Plan Assets

Since this is the first actuarial valuation, there are not any assets. It is anticipated that in future valuations a smoothed market value consistent with Actuarial Standards Board ASOP 6, as provided in paragraph number 125 of GASB Statement 45.

Turnover Rate

The following age related turnover scale was used:

Age	Percent Turnover
15 - 26	20.00%
26 - 41	12.00%

Post employment Benefit Plan Eligibility Requirements

Retirement (DROP entry) eligibility is as follows: in NOMERS, the earliest of 30 years of service at any age; age 60 and 10 years of service; age 65 and 20 years of service; or, satisfaction of the "Rule of 80" (age plus service equals or exceeds 80); in MPRS, the earlier of 25 years of service and age 50 and 20 years of service (in MPRS, DROP entry requires age 55 and 12 years of service or 20 years of service and eligibility to retire); in NOFF, age 50 and 12 years of service. However, because of the "back-loaded" benefit formula in the NOFF plan relative to years of service, the retirement assumption used for that plan was the earliest of

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age 50 and 30 years of service, age 55 and 25 years of service, and age 60 and 12 years of service. Entitlement to benefits continues through Medicare to death.

Investment Return Assumption (Discount Rate)

GASB Statement 45 states that the investment return assumption should be the estimated long-term investment yield on the investments that are expected to be used to finance the payment of benefits (that is, for a plan which is funded). Based on the assumption that the ARC will not be funded, a 4% annual investment return has been used in this valuation. This is a conservative estimate of the return on the sponsoring employer's general investments as provided in paragraph 121 of GASB Statement No. 45.

Health Care Cost Trend Rate

The expected rate of increase in medical cost is based on projections performed by the Office of the Actuary at the Centers for Medicare & Medicaid Services as published in National Health Care Expenditures Projections: 2003 to 2013, Table 3: National Health Expenditures, Aggregate and per Capita Amounts, Percent Distribution and Average Annual Percent Change by Source of Funds: Selected Calendar Years 1990-2013, released in January, 2004 by the Health Care Financing Administration (www.cms.hhs.gov). "State and Local" rates for 2008 through 2013 from this report were used, with rates beyond 2013 graduated down to an ultimate annual rate of 5.0% for 2016 and later.

Mortality Rate

The 1994 Group Annuity Reserving (94GAR) table, projected to 2002, based on a fixed blend of 50% of the unloaded male mortality rates and 50% of the unloaded female mortality rates, is used. This is the mortality table which the IRS requires to be used in determining the value of accrued benefits in defined benefit pension plans.

Method of Determining Value of Benefits

The "value of benefits" has been assumed to be the portion of the premium after retirement date expected to be paid by the employer for each retiree and has been used as the basis for calculating the actuarial present value of OPEB benefits to be paid. The employer rates provided are "unblended" rates for active and retired as required by GASB 45 for valuation purposes.

In addition to providing pension benefits, the City provides postretirement healthcare benefits, as per City ordinance, for certain retired employees. City employees who have completed 10 years of service and who are eligible to receive pension benefits at the time they terminate employment with the City are eligible to participate in the City's healthcare plan as retirees. The cost of retirement hospitalization benefits is recognized as an expense/expenditure on a pay-as-you-go basis.

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(9) Individual Fund Disclosures

Deficit Fund Equity

At December 31, 2007, the FEMA had deficit fund balance in the amounts of approximately \$17.4 million resulting from accrued expenditures for which revenue has been deferred.

Interfund Receivables and Payables

Individual fund interfund receivables and payables at December 31, 2007 were as follows (amounts in thousands):

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	FEMA Fund	\$ 13,871
	UDG Fund	196
	Nonmajor Funds	10,693
Nonmajor Funds	Capital Fund	139
	Nonmajor Funds	2,021
	General Fund	63
UDG Fund	General Fund	1,814
		<u>\$ 28,797</u>

Interfund balances resulted from the time lag between the dates (1) when interfund services are provided or reimbursable expenditures occur and (2) payments between funds are made. For example, the General Fund originally incurred expenditures that were ultimately recorded in the FEMA grant and reimbursed by the federal government. The interfund balances between the General Fund and the HUD Grant Fund and Nonmajor Funds result from timing differences in the payment for services and reimbursement from the federal government.

Interfund Advances

Individual fund interfund advances at December 31, 2007 were as follows (amounts in thousands):

	<u>Advances from other funds</u>	<u>Advances to other funds</u>
General	\$ 252	—
Nonmajor special revenue:		
Sidewalk paving and repairing	—	2
Department of Safety and Permits – Demolition	—	250
Total nonmajor special revenue	—	252
	<u>\$ 252</u>	<u>252</u>

The interfund balances are not expected to be repaid within the year.

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Fund Transfers

Individual fund transfers for the year ended December 31, 2007 were as follows (amounts in thousands):

	<u>Transfers-in</u>	<u>Transfers-out</u>
General	\$ 12,700	(1,351)
Capital projects	79,906	—
Debt service		(75,151)
Nonmajor governmental funds	1,350	(17,454)
Total	<u>\$ 93,956</u>	<u>(93,956)</u>

Transfers are used to (1) move revenues from the fund that statute or the budget requires to collect them to the fund that the statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds. Amounts transferred to the General Fund from the Rivergate Development Corporation Fund (included as a nonmajor governmental fund) represent net rents and other cost reimbursements received related to the land-based casino. Amounts transferred to the Federal UDAG Fund represents advances made from the Community Development Block Grant (CDBG) to pay debt service.

Charges to Component Units for Support Services

Charges for support services paid to the general fund during fiscal year 2007 by the Airport amounted to \$1,443,000 primarily for overhead reimbursement and fire protection.

The City does not charge the Downtown Development District, French Market Corporation, the Municipal Yacht Harbor Management Corporation, the Upper Pontalba Building Restoration Corporation, or Canal Street Development Corporation for any support services provided to them. In addition, the City does not charge rent to the Audubon Commission for the land which is owned by the City on which the golf course operates.

(10) Fund Balance Reserves

Certain fund balance amounts in the following funds have been reserved to indicate a restriction for a particular purpose or amounts that are not available for appropriation. Details of the components of reserved fund balance at December 31, 2007 are as follows (amounts in thousands):

	<u>Governmental funds</u>					
	<u>General</u>	<u>Federal UDAG</u>	<u>Debt service</u>	<u>Capital projects</u>	<u>Other governmental</u>	<u>Total</u>
Encumbrances	\$ 16,526	23,458	—	57,159	1,946	99,089
Debt service	—	—	73,267	—	—	73,267
Grantee loans	—	1,729	—	—	—	1,729
Total	<u>\$ 16,526</u>	<u>25,187</u>	<u>73,267</u>	<u>57,159</u>	<u>1,946</u>	<u>174,085</u>

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(11) Interest Income

Interest earned on investments held by the City's capital projects fund, certain special revenue funds (Sidewalk Paving and Repairing, Traffic Court Judicial Expense, Department of Safety and Permits – Demolition, Vieux Carre' Commission, and Municipal Court Judicial Expense) and certain agency funds (Clearing and Deposit) is recorded as revenue of the General Fund. The amount of interest revenue recorded by the General Fund on investments of the capital projects fund for the year ended December 31, 2007 was approximately \$6.2 million.

(12) Commitments and Contingencies

Operating Lease Agreements

The City has commitments under several operating lease agreements for equipment and facilities. These lease agreements are primarily for copier and data processing equipment and for land and buildings. They are cancelable by the City at any time. However, City management believes that such leases will generally be renewed or replaced each year. Annual rent in 2007 for such operating lease agreements was approximately \$4.7 million.

Claims and Judgments

The City is a defendant in a number of claims and lawsuits alleging, among other things, personal injury, police brutality, wrongful death, overcollection of property taxes, and improperly designed drainage systems.

Self-Insurance

The City is self-insured for its motor vehicle fleet, and general liability and police department excessive force, workers' compensation, hospitalization, and unemployment losses and claims.

The City's claims are financed on a "pay-as-you-go" basis for its motor vehicle fleet, general liability and police department excessive force losses. Premiums are charged by the General Fund to the City's various funds for the unemployment and worker's compensation self-insurance programs and to employees and the City's various funds for the hospitalization self-insurance programs. Paid claims in excess of such premiums, if any, are funded by the General Fund.

As of December 31, 2007, the City has determined, through an analysis of historical experience, the adequacy of the liability necessary to cover all losses and claims, both incurred and reported and incurred but not reported (IBNR), under its self-insurance programs. The City does not discount its claims liabilities. The liabilities of \$337,150 for motor vehicle fleet, \$172,610,722 for general liability and police department excessive force losses, \$49,173,000 for workers' compensation, and \$6,479,728 for hospitalization and unemployment have been accrued in the government-wide financial statements in the total amount of \$228,600,599.

CITY OF NEW ORLEANS, LOUISIANA

Notes to Basic Financial Statements

December 31, 2007

Changes to the City's claims liability amounts in fiscal 2007 and 2006 are as follows (amounts in thousands):

	<u>Beginning of fiscal year liability</u>	<u>Claims and changes in estimates</u>	<u>Benefit payments, claims, and adjustments</u>	<u>Balance at fiscal year-end</u>	<u>Short term Portion</u>
General liability and police liability:					
2006	\$ 216,158	12,547	(24,198)	204,507	3,414
2007	204,507	(28,482)	(3,414)	172,611	7,000
Workers' compensation:					
2006	51,042	11,535	(13,296)	49,281	13,689
2007	49,281	13,581	(13,689)	49,173	13,689
Motor vehicle fleet:					
2006	879	—	(181)	698	418
2007	698	57	(418)	337	337
Hospitalization and unemployment:					
2006	5,915	42,283	(43,189)	5,009	5,009
2007	5,009	52,257	(50,786)	6,480	6,480
Total:					
2006	273,994	66,365	(80,864)	259,495	22,530
2007	259,495	37,413	(68,307)	228,601	27,506

Federal Financial Assistance Questioned Costs

The City receives federal financial assistance directly from federal agencies or passed through from other government agencies. Audits of the City's federal award programs periodically disclosed certain items or transactions as questioned costs. The ultimate resolution or determination as to whether the costs will be disallowed under the affected grants will be made by the various funding sources and cannot be determined at this time. The City believes disallowances, if any, will be immaterial to its financial position and operations.

Landfill Closing Costs

The City owns two closed landfill sites located in the eastern portion of the City (Recovery I Landfill and Gentilly Landfill). State and federal laws require the City to cap the landfill and to monitor and maintain the site for 30 subsequent years. The Gentilly Landfill, which was closed in 1995, was reopened in 2005 under an agreement with a third party vendor. The agreement requires the vendor to pay a 3% royalty fee to the City and a fee equal to 50 cents per cubic yard of waste disposed at the site to be put in to trust to fund the future landfill post closure costs until such time that this liability becomes fully funded, as certified by the Louisiana Department of Environmental Quality (LDEQ). The City does not record this liability on its' books, as the third party vendor is contributing to the trust in accordance with the

CITY OF NEW ORLEANS, LOUISIANA

Notes to Basic Financial Statements

December 31, 2007

agreement. The Recovery I site was closed in June 2003 upon obtainment of the Closure Certificate from LDEQ.

Through the time of closure, in the government-wide financial statements, the City recognized a portion of the closure and postclosure care costs in each operating period although actual payouts will not occur until this landfill is capped and closed, respectively. The amount recognized each year to date was based on the landfills' capacities used as of the balance sheet date. As of December 31, 2007, the City has estimated its liability at \$12,560,000.

These amounts are based on what it would cost to perform all closure and postclosure care beginning in 2007 for a 30 year period, adjusted for annual cost increases of 3%. Actual cost may be higher due to inflation, changes in technology, or changes in regulations, and may need to be covered by charges from future tax revenue. Current funding of these costs comes from the General Fund.

Prior Years' Defeased Bonds

In prior years, the City entered into advance refunding transactions whereby it issued General Obligation Refunding Bonds to effect early retirement of certain General Obligation Bonds. The net proceeds of these refunding bonds were placed in irrevocable escrow accounts and invested in U.S. Treasury obligations that, together with interest earned thereon, will provide amounts sufficient for payment of all principal and interest on the refunded bonds. Accordingly, the escrow accounts and the refundable bonds are no longer included on the City's basic financial statement of net assets. The outstanding balance of the refunded bonds at December 31, 2007 is as follows (amounts in thousands):

		<u>2006</u>	<u>Payments</u>	<u>2007</u>
1998 Public Improvement Bond	\$	32,890	(32,890)	-
1999 Public Improvement Bond		27,005	(1,550)	25,455
	\$	<u>59,895</u>	<u>(34,440)</u>	<u>25,455</u>

Arbitrage

The City has issued tax-exempt bonds that are subject to arbitrage regulations of the Internal Revenue Service, which impose restrictions on the use of proceeds from tax-exempt bonds. If certain of these restrictions are not complied with, the bonds could lose their tax-exempt status retroactive to the date of original issuance and also result in the City being subject to arbitrage rebates. The City believes it is in compliance with the arbitrage regulations with respect to all of its tax-exempt bond issues.

CITY OF NEW ORLEANS, LOUISIANA

Notes to Basic Financial Statements

December 31, 2007

(13) Subsequent Events

The 2000 Taxable Pension Revenue Variable Rate Bonds are auction rate securities under which the variable interest rates are set through weekly auctions. As a result of issues that affected the financial markets in the first quarter of 2008, auctions of auction rate securities could not be successfully completed. While the City's auction rate securities have no direct connection to the issues in the financial markets, the weekly auctions of the 2000 Pension Revenue Bonds was adversely impacted, resulting in unsuccessful auctions. The City's variable rate interest rate were fixed at 6.95% through swap agreements. The counterparty declared "market disruption" and exercised its put option. Under the terms of the swap agreements, the interest calculation changed to 6.95% plus prime plus 1% less LIBOR. The change in interest could result in substantially additional interest payments in 2008. The City is assessing its legal options, if any, with the various parties to these agreements. The ultimate impact of market conditions on the City's interest payments cannot be determined at this time.

(14) Restatement

During 2007, the City identified several adjustments which impacted prior year financial statements. A summary of the impact of these adjustments is as follows. The impact on fund balance was as follows:

Fund balance, as previous reported, December 31, 2006	\$ 366,141
Prior period adjustments	
FEMA Special Revenue Fund related to deferred revenue	(931)
Capital Projects related to deferred revenue	3,957
Capital Projects related to interest income	1,700
	<u>4,726</u>
Fund balance, as restated, December 31, 2006	\$ <u>370,867</u>

The impact on net assets was as follows:

Net assets, as previous reported, December 31, 2006	\$ 151,162
Prior period adjustments	
Unrecorded liabilities related to tax refunds, debt, interest, and other expenses, net	(41,463)
Unrecorded assets	29,857
	<u>(11,606)</u>
Net assets, as restated, December 31, 2006	\$ <u>139,556</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF NEW ORLEANS, LOUISIANA

Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget (Non-GAAP Budgetary Basis) and Actual – General Fund

Year ended December 31, 2007

(Amounts in thousands)

	Original budget	Revised budget	Actual on budgetary basis	Variance favorable (unfavorable)
Revenues:				
Taxes	\$ 204,525	204,525	231,546	27,021
Licenses and permits	40,780	40,780	55,026	14,246
Intergovernmental	9,147	16,998	27,584	10,586
Charges for services	39,235	39,235	35,080	(4,155)
Fines and forfeits	9,830	9,830	11,766	1,936
Interest income	7,399	7,399	14,016	6,617
Contributions, gifts, and donations	4,068	4,068	558	(3,510)
Miscellaneous	6,068	6,068	13,386	7,318
Total revenues	321,052	328,903	388,962	60,059
Expenditures:				
Current:				
General government	158,405	176,920	159,209	17,711
Public safety	141,790	162,375	157,517	4,858
Public works	47,888	48,988	54,917	(5,929)
Health and human services	9,460	10,442	10,703	(261)
Culture and recreation	10,533	13,428	12,157	1,271
Debt service:				
Principal retirement	23,860	23,860	23,860	—
Interest and fiscal charges	19,692	19,692	19,692	—
Total expenditures	411,628	455,705	438,055	17,650
(Deficiency) excess of revenues over expenditures	(90,576)	(126,802)	(49,093)	77,709
Other financing sources (uses):				
Operating transfers in	12,200	12,200	12,700	500
Proceeds from notes payable	71,149	71,149	21,345	(49,804)
Operating transfers out	—	—	(1,351)	(1,351)
Appropriations from prior year budgetary fund balance	7,227	43,453	37,023	(6,430)
Reduction in prior year's outstanding encumbrances	—	—	(9,360)	(9,360)
Other	—	—	9,479	9,479
Total other financing sources (uses)	90,576	126,802	69,836	(56,966)
(Deficiency) excess of revenues and other financing sources over expenditures and other financing uses	\$ —	—	20,743	20,743
Fund balances, beginning of year			95,109	
Less appropriation from beginning of year fund balance			(37,023)	
Fund balances – budgetary basis, end of year			\$ 78,829	

See accompanying independent auditors' report.

CITY OF NEW ORLEANS, LOUISIANA

Budget to GAAP Reconciliation

(Unaudited)

The Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual presents comparisons of the legally adopted original budget and final budget (non-GAAP basis) with actual data on a budgetary basis. In the general fund, accounting principles applied for purposes of developing data on the budgetary basis differ from those used to present financial statements in conformity with GAAP.

A reconciliation of this basis and timing differences is presented below (amounts in thousands):

Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses (budgetary basis)	\$	20,743
Adjustments:		
To adjust revenues for accruals and deferrals		2,286
Appropriation from beginning of year fund balance		(27,663)
Other		<u>—</u>
Net change in fund balance	\$	<u><u>(4,634)</u></u>

See accompanying independent auditors' report.

CITY OF NEW ORLEANS, LOUISIANA

Schedule of Funding Progress

Year ended December 31, 2007

(Unaudited)

(Amounts in Thousands)

Actuarial valuation date	Value of assets (a)	Actuarial accrued liability (AAL) (b)	Excess of assets over AAL (a-b)	Funded ratio (a/b)	Covered payroll (c)	Excess as percentage of covered payroll ((a-b)/c)
Employees' Retirement System:						
12/31/05	412,970	391,571	21,399	105.46	63,622	33.63
12/31/06	403,370	378,794	24,576	106.49	52,985	46.38
12/31/07	398,491	423,794	(25,303)	94.03	63,457	(39.87)
Police Pension Fund:						
12/31/05	1,630	1,608	22	101.37	—	N/A
12/31/06	1,648	1,626	22	101.35	—	N/A
12/31/07	1,635	1,613	22	101.36	—	N/A
Firefighters' Pension and Relief Fund (Old System):						
12/31/05	18,043	168,211	(150,168)	10.73	—	N/A
12/31/06	20,215	165,836	(145,641)	12.19	—	N/A
12/31/07	19,037	170,527	(151,490)	11.16	—	N/A

See accompanying independent auditors' report.

CITY OF NEW ORLEANS, LOUISIANA

Notes to Required Supplementary Information

Year ended December 31, 2007

(Unaudited)

Required Supplementary Information includes budgetary comparisons for the General Fund and the Schedules of Funding Progress.

(1) Budgetary Data

The procedures used by the City in establishing the general fund budgetary data are as follows:

- Not later than November 1, the Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted, after proper official public notification, to obtain taxpayer comments.
- Not later than December 1, the budget is legally enacted through passage of an ordinance.
- The City's budget ordinance is structured such that revenues are budgeted by source, and expenditures are budgeted by department and by principal object classification within a department. The City's charter provides that expenditures may not legally exceed appropriations either at a departmental level or at the principal object classification within a department.

The Mayor's office is allowed to authorize the transfer of budgeted amounts from one budget activity to another within a principal object classification within the same department. Budgetary transfers between principal object classifications of the same department or between departments must be approved by the City Council. Throughout the year, several amendments to the budget were made by the City Council. There were no supplemental appropriations necessary during the current year.

- The City utilizes formal budgetary integration as a management control device during the year for the general and capital projects funds. Formal budgetary integration is not employed for the debt service and special revenue funds because effective budgetary control is alternatively achieved through other provisions.
- Unencumbered appropriations lapse at year-end. Current year transactions, which are directly related to a prior year's budget, are not rebudgeted in the current year.

(2) Schedules of Funding Progress

The actuarial value of assets for the Old System does not include contributions receivable of \$41,700,000, \$55,168,000, and \$70,109,000 for the years ended December 31, 2007, 2006, and 2005, respectively. For actuarial purposes, contribution receivable is not deemed to be an asset of the fund. However, for the purposes of the calculation of the prepaid pension asset, the contribution receivable is included in the actuarial value of plan assets in accordance with U.S. generally accepted accounting principles.

The Firefighters' Pension and Relief Fund (New System) uses the aggregate actuarial cost method; therefore, a schedule of funding progress is not required when this method is used in determining funding requirements because this method does not separately identify an actuarial accrued liability.



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**Independent Auditors' Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

The Honorable Mayor and Members
City Council of the City of New Orleans, Louisiana:

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of New Orleans, Louisiana (the City) as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 30, 2008. Our report was modified to include a reference to other auditors. Our report included an explanatory paragraph discussing Hurricane Katrina and the destruction it caused, which had a significant financial impact on the City in 2005, 2006, and 2007 and will have continuing effects in future years. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the New Orleans Tourism Marketing Corporation, the Orleans Parish Communication District, the Audubon Commission, the French Market Corporation, the Upper Pontalba Building Restoration Corporation, the Canal Street Development Corporation, the Firefighters' Pension and Relief Fund of the City of New Orleans (old and new systems), the Police Pension Fund of the City of New Orleans, the Employees' Retirement System of the City of New Orleans, and the Board of Liquidation, City Debt, as described in our report on City's financial statements. This report does not include the results of the other auditors testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect

misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying schedule of findings and responses on 2007-1 through 2007-8 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies noted above, we believe that items 2007-1 through 2007-7 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2007-9.

We noted certain matters that we reported to management of the City in a separate letter dated June 30, 2008.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the City's responses and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Mayor, members of City Council, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Metairie, Louisiana
June 30, 2008

CITY OF NEW ORLEANS, LOUISIANA

Schedule of Findings and Questioned Costs

Year ended December 31, 2007

A. Summary of Auditor's Results

Financial Statements

Type of auditors' report issued: Unqualified

- Material weakness(es) identified? X Yes No
- Significant deficiencies identified that are
not considered to be material weaknesses X Yes No
- Material noncompliance to financial statements? X Yes No

CITY OF NEW ORLEANS, LOUISIANA

Schedule of Findings and Questioned Costs

Year ended December 31, 2007

B. Basic Financial Statements, Findings, and Responses

2007-1 Accounting and Financial Reporting

Criteria: The City should have systems of internal accounting control which ensures the basic financial statements are presented in accordance with U.S. generally accepted accounting principles on a timely basis.

Condition: The City does not have adequate policies, procedures, and related internal controls to prepare accurate and complete financial statements on a timely basis.

Context: During our audit, we noted the following conditions:

- The City did not have an adequate management review of the financial statements. Certain errors were noted in the fund financial statements that were not detected by the City.
- The City does not prepare timely reconciliations for accounts including cash, accounts receivable, sales tax receivable, and capital assets, and liabilities.
- To properly present the financial statements, the City recorded numerous adjustments.
- The City did not properly record property tax receivable and deferred revenue in the governmental fund financial statements.
- The City prepares its governmental fund and agency fund financial statements, but does not have policies, procedure, and resources in place to accurately convert these financial statements to full accrual.

Cause: The City does not have an appropriate infrastructure to prepare accurate and complete financial statements in a timely manner in accordance with U.S. generally accepted accounting principles. Significant resources were required during 2007 to complete and file the 2006 and 2005 financial statements. The City also implemented a new software system for its accounting. The fiscal years 2007, 2006, and 2005 financial reporting process was impacted by Hurricane Katrina (the storm) and the layoffs of certain finance employees.

Effect: The City recorded material adjustments to ensure the financial statements were presented in accordance with U.S. generally accepted accounting principles.

CITY OF NEW ORLEANS, LOUISIANA

Schedule of Findings and Questioned Costs

Year ended December 31, 2007

2007-1 Accounting and Financial Reporting (continued)

Recommendation: The City should evaluate its accounting and financial reporting function. Specifically, the City should consider the following:

- Ensure adequate resources (both number and skill set) are dedicated to the accounting and financial reporting function.
- Develop and implement policies, procedures, and related controls over the preparation of the financial statements, including those presented under full accrual.
- Assign responsible persons for preparing and reviewing the financial statements. Address the specific accounting matters discussed in this schedule of findings and responses.
- Address the specific accounting matters discussed in the schedule of findings and questioned costs.
- Develop policies and procedure to ensure journal entries are approved by someone other than the preparer.
- Bring accounting up-to-date including timely reconciliations to enable the timely preparation of financial statements.

**Views of Responsible
Officials and Planned
Corrective Action**

Plan:

In order to ensure adequate resources are dedicated to the accounting and financial reporting function the Finance Department filled all general ledger accounting vacancies in June 2008. Additionally, the Chief Administrative Officer has agreed to adding three additional accounting positions. Protocols have been established to review all transactions; including a listing of specific tasks, responsible staff and deadlines for preparation of annual and interim financial statements. We have contracted with an accounting firm to provide staff support and expertise on reconciliations and capital assets. An increased salary structure for the accountant series has been approved by the City Council's Budget Committee and the Civil Service Commission which will enhance recruiting and retention of staff. Throughout 2007, the City's accounting staff was continuously working on prior audits of 2005 and 2006. Currently temporary staff is supplementing accounting staff to complete bank reconciliations and in the preparation of monthly financial statements within 60 days. The Finance Department will develop a comprehensive written financial close plan for the December 31, 2008 financial statements.

Contact Person: Reginald Zeno, Director of Finance

CITY OF NEW ORLEANS, LOUISIANA

Schedule of Findings and Questioned Costs

Year ended December 31, 2007

2007-2 Capital Assets

Criteria:	The City has a significant amount of capital assets, including construction-in-progress (CIP) and infrastructure. The City should have systems of internal accounting control, which provide for proper accounting and financial reporting for capital assets. GASB Statement No. 34, <i>Basic Financial Statements - and Management's Discussion and Analysis ~ for State and Local Governments</i> (GASB No. 34), provides guidance on recording and reporting capital assets.
Condition:	The City did not have adequate policies, procedures, and internal controls in place to ensure capital assets were fairly stated in its financial statements on a timely basis.
Context:	<p>During test work, we noted the following weaknesses in the internal control structure over the capital asset accounting function:</p> <ul style="list-style-type: none">• The City does not perform a timely review of projects in CIP; therefore, projects are not closed out timely and transferred to a depreciable asset.• The City identified additional projects in CIP that should have been closed to property in prior years.• Certain CIP balances represented repair, maintenance, or other noncapitalizable projects that had to be expensed.• The City did not have an adequate management review of the capital asset listings and rollforward.• Certain assets selected for observation could not be located.• Detailed property records were not updated timely.
Cause:	The City has not performed procedures to ensure capital assets are properly and timely recorded in the financial statements.
Effect:	Material adjustments were posted by the City to the capital asset balances.
Recommendation:	The City should develop and implement policies and procedures, and related internal controls to ensure capital assets are fairly stated and properly reported in the financial statements. These City controls should include maintaining accurate and complete capital asset listings and appropriate reviews of depreciable assets and CIP balances to ensure proper accounting and financial reporting. The City should also strengthen its reconciliation of its capital asset listing and implement a formal review procedure of the capital asset rollforward and projects within the CIP account.

CITY OF NEW ORLEANS, LOUISIANA

Schedule of Findings and Questioned Costs

Year ended December 31, 2007

2007-2 Capital Assets (continued)

**Views of Responsible
Officials and Planned
Corrective Action**

Plan: Capital projects are managed by the CAO's Capital Project Office and the Department of Public Works. In order to assist the Capital Projects Office and the Public Works Department, the City has contracted a firm, in March 2008, to handle capital asset accounting and reporting. The Finance Department will establish quarterly meetings with Capital Projects and Public Works to ensure they provide timely completion of financial data.

Contact Person: Reginald Zeno, Director of Finance

2007-3 Accounts Payable

Criteria: The City should have systems of internal accounting control, which provide for proper preparation of the financial statements.

Condition: The City did not have adequate process and controls in place to ensure expenditures were reported in the proper period.

Context: We noted unrecorded invoices in the FEMA and Department of Housing and Urban Development (HUD) funds.

Cause: The City's procedures for recording accounts payable do not include sufficient review of subsequent disbursement to determine that all accounts payable have been recorded.

Effect: The City recorded material adjustments to properly reflect accounts payable in accordance with U.S. generally accepted accounting principles.

Recommendation: The City should implement procedures and controls to ensure accounts payable is properly reported at year-end. Specifically, the City should evaluate the configuration of its accounting system to ensure expenditures are reported in the proper period.

CITY OF NEW ORLEANS, LOUISIANA

Schedule of Findings and Questioned Costs

Year ended December 31, 2007

2007-3 Accounts Payable (continued)

**Views of Responsible
Officials and Planned
Corrective Action**

Plan: In order to ensure invoices are paid and expenditures are recorded in the proper period the Finance Department sent out several communications to all departments relative to submission of invoices on a timely basis before year end close. As a result, the 2007 books were closed timely. The Finance Department will continue to communicate with departments concerning outstanding invoices in order to timely close the accounting records. The Capital Projects Office will provide timely information concerning FEMA construction projects and outstanding invoices. Additionally, the City has contracted an accounting firm in March 2008 to handle FEMA accounting and reporting.

Contact Person: Reginald Zeno, Director of Finance

2007-4 Cash

Criteria: The City should have systems of internal accounting control, which provide for proper preparation of the financial statements. P&N noted cash journal entries that did not show evidence of review and approval by someone other than the preparer.

Condition: The City did not perform cash reconciliations on a timely basis to ensure cash was properly presented in the financial statements at year-end.

Context: The City operated from 2005 through 2007 without timely bank reconciliations to identify corrections to the financial statements that were required.

Cause: After the storm, the City's cash reconciliation was put on hold. The City was not able to reconcile the December 31, 2007 bank accounts until June 2008. Journal entries were required to bring the reconciliation amounts into balance with amounts recorded.

Effect: The City recorded material adjustments to properly reflect present outstanding checks and deposits-in-transit in accordance with U.S. generally accepted accounting principles.

CITY OF NEW ORLEANS, LOUISIANA

Schedule of Findings and Questioned Costs

Year ended December 31, 2007

2007-4 Cash (continued)

Recommendation: The City should perform and review reconciliations on a timely basis to track outstanding checks, present outstanding checks as a reduction of cash at year-end and properly present deposits-in-transit. In addition, the City should ensure the cash reconciliation is completed each month and is properly reviewed.

**Views of Responsible
Officials and Planned
Corrective Action**

Plan: Throughout 2007, the City's accounting staff was continuously working on prior audits of 2005 and 2006. In order to ensure adequate resources are dedicated to performing monthly cash reconciliations the Finance Department filled all general ledger accounting vacancies. Additionally, the Chief Administrative Officer has agreed to adding three additional accounting positions. Currently temporary staff is supplementing accounting staff to complete bank reconciliations and prepare monthly financial statements in accordance with the monthly close out schedule. Additionally, Finance staff will direct all departments to ensure timely recordation of cash receipts by the departments. The City will implement procedures to ensure that bank reconciliations are completed within 60 days subsequent to month end by not later than October 31, 2008.

Contact Person: Reginald Zeno, Director of Finance

2007-5 HUD and UDAG Grantee Loans

Criteria: Housing & Economic Development is charged with managing the City's loans issued from United States Department of Housing and Urban Development (HUD) grants under Section 108 and Urban Development Action Grant (UDAG). The City should have internal controls in place to ensure the loans are properly recorded in its financial statements.

Condition: The City does not have adequate policies, procedures, and internal control over HUD loans to ensure they are properly presented in the financial statements in accordance with U.S. generally accepted accounting principles.

CITY OF NEW ORLEANS, LOUISIANA

Schedule of Findings and Questioned Costs

Year ended December 31, 2007

2007-5 HUD and UDAG Grantee Loans (continued)

Context: The City's loans receivable required an adjustment after year end to reflect payments received during the year.

Cause: Economic Development had a complete turnover of staff after the storm. As a result, the City did not maintain complete files on each of the loans.

Effect: The City recorded adjustments to properly reflect cash collections on certain loans.

Recommendation: The City should implement procedures and controls to ensure timely recording of cash receipts to loan balances in the funds.

**Views of Responsible
Officials and Planned
Corrective Action**

Plan: The Office of Recovery and Development office has identified a staff person to oversee HUD and UDAG Grantee Loans. The Finance Department will work closely with this individual to ensure the proper recordation of payments and submission of monthly reports to the Finance Department.

Contact Person: Reginald Zeno, Director of Finance

2007-6 Reporting Litigation and Claims

Criteria: The City should have systems of internal accounting control, which provides for proper preparation of the financial statements.

Condition: The City does not have adequate controls in place to ensure litigation and claims are properly recorded or disclosed in the financial statements.

Context: The City Attorney's Office provides a detail excel listing of its litigation and claims to support the City's accrual and disclosure. During our audit, we noted this excel listing needed material adjustments after our review of 25 cases with the City Attorney's Office.

CITY OF NEW ORLEANS, LOUISIANA

Schedule of Findings and Questioned Costs

Year ended December 31, 2007

2007-6 Reporting Litigation and Claims (continued)

Cause: The City Attorney's Office did not update the litigation claims list on a timely basis to properly record or disclose litigation and claims. Although the case file was updated immediately, the case listing which is monitored by the data base manager is not on a real time basis.

Effect: The City recorded adjustments to properly accrue the litigation and claims liability in accordance with U.S. generally accepted accounting principles.

Recommendation: The City should implement procedures for the timely preparation and review of the litigation and claims records.

**Views of Responsible
Officials and Planned
Corrective Action**

Plan: The City Attorney's Office will review the listing of litigation and claims and make the proper adjustment to the data base listing on a timely basis. The City is encouraged to allocate funds to the City Attorney's office to acquire litigation software that will allow for real-time updates and/or will allow material changes such as settlements, motion practice, dispositions of other defendants, etc.

Contact Person: Penny Moses Fields, City Attorney

2007-7 Information Technology

Criteria: General controls are policies and procedures that relate to many applications and support the effective functioning of application controls by helping to ensure the continued proper operation of information systems. General controls commonly include controls over data center and network operations; system software acquisition and maintenance; access security; and application system acquisition, development, and maintenance.

Condition: We noted conditions that indicated weaknesses in the City's information technology general controls relating to access.

CITY OF NEW ORLEANS, LOUISIANA

Schedule of Findings and Questioned Costs

Year ended December 31, 2007

2007-7 Information Technology (continued)

Context: We noted the following conditions during our audit:

- Administrator privileges are not appropriately controlled.
- Periodic user reviews are not performed for critical access.
- User access is not terminated in a timely manner.
- Access to Great Plains and AFIN is not appropriately restricted. In addition, there is no evidence to support authorization of access to Great Plains, AFIN, and the network.
- User access is not reviewed on a periodic basis.

Cause: The City has not developed adequate policies, procedures, and related controls for Information Technology (IT) general controls. In addition, the IT department was impacted by the storm.

Effect: Failure to ensure adequate general controls are in place and operating effectively could impact proper operation of, and appropriate access to, information systems.

Recommendation: The City should develop and implement standard general IT control policies, procedures, and internal controls and ensure evidence is available to support those controls.

Views of Responsible Officials and Planned Corrective Action

Plan: The Mayor's Office of Technology will review the recommendation as a result of the 2007 audit regarding the system access to implement the access controls on the following applications: AFIN, Buy Speed, and Great Plains immediately.

Contact Person: Anthony Jones, Chief Technology Officer

2007-8 Credit Card Payments

Criteria: The City should have systems of internal accounting control which requires proper supporting documentation and business purpose for payment of credit card statements.

CITY OF NEW ORLEANS, LOUISIANA

Schedule of Findings and Questioned Costs

Year ended December 31, 2007

2007-8 Credit Card Payments (continued)

- Condition:** While certain policies are in place, the City does not have adequate processes and controls to ensure that supporting documentation is obtained and a business purpose is documented and verified for payments made with credit cards.
- Context:** During our testing of credit card payments, we noted that of \$49,728 in 2007 credit card expenses tested, \$33,157 did not have a documented business purpose for the expenses and \$36,952 did not have supporting documentation, including receipts or invoices, for the expenses.
- Cause:** The City does not have adequate procedures and related internal controls in place to ensure supporting documentation and documented business purpose before monthly credit card statements are paid.
- Effect:** Failure to ensure adequate controls are in place and operating effectively could result in improper credit card use.
- Recommendation:** The City should develop and implement standard policies, procedures, and internal controls to ensure documentation is available to support credit card purchases before payments are made.

Views of Responsible Officials and Planned Corrective Action

Plan: In order to ensure employees comply with the established policy, the City has expanded the credit card policies and controls to include the suspension or revocation of credit card privileges for failing to properly document each charge incurred. Employees must perform a review of charges listed on the statement and attach a receipt/documentation for each charge incurred. Documentation must include the business expense and a listing of participants, if applicable. The documentation must be submitted within 15 days of receipt of the statement; if the documentation is not submitted, cards will be immediately suspended. The documentation will be reviewed by the CAO for final approval; if the documentation is not acceptable, the CAO has the discretion to suspend usage and/or require reimbursement of any charges incurred.

Contact Person: Dr. Brenda Hatfield, Chief Administrative Officer

CITY OF NEW ORLEANS, LOUISIANA

Schedule of Findings and Questioned Costs

Year ended December 31, 2007

2007-9 Energy Savings Contracts

- Criteria:** The City should follow public bid law for the purchase of all movable equipment pursuant to La. R.S. 9:3304 and should obtain approval from the Louisiana Bond Commission before issuing debt, including entering into any arrangements to lease equipment under a capital lease.
- Condition:** From 2000 through 2002, the City did not bid the purchase of movable equipment, nor did the City obtain prior approval from the Louisiana Bond Commission for the issuance of debt in violation of Louisiana statute. The condition has been noted in prior audits.
- Context:** Between October 15, 2000 and February 12, 2002, the City entered into 3 leases with Johnson Controls to purchase movable equipment under separate lease agreements for a period of 20 years, whereby the vendor promised guaranteed savings, both stipulated and calculated, in excess of the lease payments. The equipment leased included HVAC equipment and traffic signals. In addition, the City entered into a separate maintenance agreement related to 36 buildings owned by the City. The net present value of the leased equipment for each equipment lease was \$9,625,477, \$17,919,666 and \$6,313,756, respectively. Total lease payments over the life of the 3 leases amounted to \$64,853,594, including \$957,805 in capitalized interest for the period ending February 15, 2022. The maintenance agreement originally required annual payments of \$650,000. On December 22, 2005 the City amended the contract with the vendor to eliminate the guaranteed savings requirement on the vendor in consideration of reducing the payments under the maintenance contract to \$119,627 to cover the 9 buildings that remained in service following Hurricane Katrina. Because the guaranteed savings amount in the original contract promised by the vendor in the contract was expected to exceed the lease payments, the City neither bid the contract for the purchase of movable equipment, nor obtained approval from the Louisiana Bond Commission for the issuance of the new debt under the capital lease arrangement. Recent legal cases have questioned the legality of this type of guaranteed energy savings contracts. KPMG, the predecessor auditor recommended the City review the contract to determine whether savings had been achieved in their 2006 Management Letter issued to the Mayor and the City Council on December 14, 2007.

CITY OF NEW ORLEANS, LOUISIANA

Schedule of Findings and Questioned Costs

Year ended December 31, 2007

2007-9 Energy Savings Contracts (continued)

Effect:	The City may not in compliance with Louisiana statutes regarding the purchase of movable equipment and the issuance of new debt under either of the original or amended contracts.
Recommendation:	The City Attorney's Office should review the contracts to determine their legal status and appropriate claims against the vendor, if any.

CITY OF NEW ORLEANS, LOUISIANA

Schedule of Prior Year Findings and Questioned Costs

Year ended December 31, 2007

06-01 Accounting and Financial Reporting

Recommendation: The City should evaluate its accounting and financial reporting function. Specifically, the City should consider the following:

- Ensure adequate resources (both number and skill set) are dedicated to the accounting and financial reporting function.
- Develop and implement policies, procedures, and related controls over the preparation of the financial statements, including those presented under full accrual.
- Address the specific accounting matters discussed in the schedule of findings and responses.
- Assign responsible persons for preparing and reviewing the financial statements. Address the specific accounting matters discussed in this schedule of findings and responses.
- Develop policies and procedure to ensure journal entries are approved by someone other than the preparer.
- Bring accounting up-to-date including timely reconciliations to enable the timely preparation of financial statements.

Current Status: Not resolved. See repeat finding 2007-1.

06-02 Capital Assets

Recommendation: The City should develop and implement policies and procedures, and related internal controls to ensure capital assets are fairly stated and properly reported in the financial statements. These City controls should include maintaining accurate and complete capital asset listings and appropriate reviews of depreciable assets and CIP balances to ensure proper accounting and financial reporting. The City should also strengthen its reconciliation of its capital asset listing and implement a formal review procedure of the capital asset rollforward and projects within the CIP account. Due to lack of controls and numerous correcting entries required, the City should consider physical inventory procedures as well.

Current Status: Not resolved. See repeat finding 2007-2.

CITY OF NEW ORLEANS, LOUISIANA

Schedule of Prior Year Findings and Questioned Costs

Year ended December 31, 2007

06-03 Accounts Payable

Recommendation: The City should implement procedures and controls to ensure accounts payable is properly reported at year-end. Specifically, the City should evaluate the configuration of its accounting system to ensure expenditures are reported in the proper period.

Current Status: Not resolved. See repeat finding 2007-3.

06-04 Cash

Recommendation: The City should implement policies, procedures, and controls to track outstanding checks, present outstanding checks as a reduction of cash at year-end, and properly present deposits-in-transit. In addition, the City should ensure the cash reconciliation is completed each month and is properly reviewed.

Current Status: Not resolved. See repeat finding 2007-4.

06-05 HUD and UDAG Grantee Loans

Recommendation: The City should implement policies, procedures, and internal controls and evaluate the staff of the Economic Development to ensure HUD loans are properly supported and recorded in the City's financial statements. The City should ensure its loan files are complete and contain adequate information to manage the loan and pursue collection. These files should contain data as to the collectibility of each loan.

Current Status: Not resolved. See repeat finding 2007-5.

06-06 Reporting Litigation and Claims

Recommendation: The City should implement policies, procedures, and related internal controls to ensure the litigation and claims liability are properly presented. Specifically the Finance Department should work with the City Attorney's Office to obtain an evaluation of each case in accordance with the criteria established in Statement of Financial Accounting Standards Board Statement No. 5, *Accounting for Contingencies*, which includes a probability assessment and estimate of loss, if applicable. These results should be used to record the accrual and disclosure of the City's litigation and claims.

CITY OF NEW ORLEANS, LOUISIANA

Schedule of Prior Year Findings and Questioned Costs

Year ended December 31, 2007

06-06 Reporting Litigation and Claims (continued)

Current Status: Not resolved. See repeat finding 2007-6.

06-07 Information Technology

Recommendation: The City should develop and implement standard general IT control policies, procedures, and internal controls and ensure evidence is available to support those controls.

Current Status: Not resolved. See repeat finding 2007-7.

06-08 Legislative Auditor Deadline

Recommendation: The City should evaluate its accounting and financial reporting policies, procedures, controls, and resources to ensure its financial statements are submitted to the Legislative Auditor in accordance with the requirements of the state statute.

Current Status: Resolved.

06-09 Violation of Laws and Regulations

Recommendation: The City should evaluate its current policies and procedures in place over the bid law process and implement more aggressive controls to deter and detect preferential contracts being awarded to preferred vendors.

Current Status: Resolved.



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June 30, 2008

The Honorable Mayor and Members
City Council of the City of New Orleans, Louisiana:

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of New Orleans, Louisiana (the City) as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 30, 2008. Our report was modified to include a reference to other auditors. Our report included an explanatory paragraph discussing Hurricane Katrina and the destruction it caused, which had a significant financial impact on the City in 2005 and will have continuing effects in future years. In planning and performing our audit of the financial statements of the City, we considered internal control as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized as follows:

Current Year Findings:

Escheatment of Unnegotiated Items

Observation

The City's policy and procedures do not provide for routine review of items for escheatment to the State. We noted a number of items which should be reviewed for escheatment.

Recommendation

The City should implement processes and procedures so that outstanding un-negotiated checks are escheated to the State on a timely basis.

Management's Response

The City will implement processes and procedure to escheat un-negotiated checks timely.

Unrecorded Property Tax Refund Liability

Observation

The City did not record a liability for unpaid property tax refunds in the amount of \$12.7 million at December 31, 2007.

The Honorable Mayor and Members of the
City Council of the City of New Orleans, Louisiana
June 30, 2008
Page 2 of 7

Recommendation

The City should implement procedures to ensure that tax refund liabilities are recorded timely. In addition, any unclaimed property tax refunds should be escheated to the State.

Management's Response

The City will implement procedures to ensure that tax refund liabilities are recorded timely. In addition, any unclaimed property tax refunds will be escheated to the State.

Bid Documentation

Observation

The City was unable to provide supporting bid documentation for a sample of CIP additions selected for testing.

Recommendation

The City should implement procedures so that the CIP detailed schedules will be prepared and submitted to us timely to ensure that the City will be able to timely provide the supporting bid documentation.

Management's Response

The City will implement procedures so that the CIP detailed schedules are prepared and submitted timely.

Security of Deposits

Observation

During testing, we noted, the City did not maintain written documentation of notification to the bank when deposits were not fully secured as required by state law.

Recommendation

We recommend the City implement procedures for documenting bank notification if deposits are not fully secured.

Management's Response

The City will implement procedures for documenting bank notification if deposits are not fully secured.



Prior Year Findings Still Applicable:

Accounting and Financial Reporting Backup

Observation

The City is a large, complex, governmental entity that disaggregates accounting and financial reporting responsibilities between various groups including the Department of Finance, other Departments/Agencies, Treasury, and the Board of Liquidation, City Debt (Board). We noted deficiencies in its accounting and financial reporting processes, including material weaknesses and reportable conditions. As noted in these comments, we noted improvements need to be made, including addressing current year internal control weaknesses, and clearly defining financial management roles and responsibilities. During our audit, we noted the City lacks backup for key accounting positions. In addition, the City has not provided adequate cross training of employees. These facts, which are due in large part to the layoffs made as a result of the impact of Hurricane Katrina, have made the City's accounting and financial reporting processes inefficient and time consuming. In addition, these factors have made the audit process more demanding and time consuming.

Recommendation

The City should evaluate its accounting and financial reporting staff and ensure adequate backup and cross-training is in place. Such cross-training should focus on additional personnel in the financial statement reporting process.

Management's Response

Unresolved

Financial Statement Analytical Review

Observation

The City does not perform an analytical review of financial information. During the audit, we noted it was difficult for the City to explain variances between years in its fund level financial statements. An analytic review process is helpful in detecting errors or matters requiring follow-up.

Recommendation

As part of the closing process, the City should perform an analytical review of the financial statements.

Management's Response

Resolved

Capital Assets

Observation

The City did not implement policies, procedures, and internal controls to ensure capital assets were fairly stated in its financial statements. We noted, the records contained general asset descriptions and lacked locations, which made it time consuming to identify the location of certain assets. As, a result certain equipment items could not be identified during our observation testing. In addition, the detailed capital assets listing were not reconciled in a timely manner.

Recommendation

The City should require more employees to be trained on the various modules of Great Plains, including fixed assets, to ensure the knowledge of its functionality. The City should consider an inventory of its capital assets to enhance the information input to Great Plains, including descriptions and locations. In addition, the City should ensure more than a few employees are familiar with the capital asset records.

Management's Response

Unresolved

Cash Reconciliation Process

Observation

The City had not reconciled its bank statements to the general ledger for the year ending December 31, 2007 until June 2008, resulting in significant adjustments. The City identified multiple adjustments to the reconciliation even after presenting the finalized reconciliation to the auditors. There also were many checks listed as outstanding as of December 31, 2007 that still had not been cleared by the bank as of June 2008.

Recommendation

The City should implement policies and procedures relating to the reconciliation of cash and provide the finance department with the necessary tools, including increased staffing to implement these policies and procedures on an ongoing basis. All cash accounts should be reconciled as a month-end closing process. The outstanding checks should be reviewed and adjustments made to return them to cash if appropriate.

Management's Response

Unresolved

Accounts Receivable and Revenue Recognition

Observation

The City records accounts receivable for property, sales, and franchise tax as well as other billed and miscellaneous accounts. During our audit, we noted the following matters:

- The City did not properly accrue sales taxes. Specifically certain 2008 taxes were included in the accrual.



- The City did not properly evaluate revenue recognition in the fund level financial statements. The City's policy considers amounts collected within 60 days after year-end, excluding grant moneys for which the period is one year after year-end, to be available and recognizes them as revenues of the current period.

Recommendation

The City should evaluate receivables at year-end to ensure proper revenue recognition.

Management's Response
Resolved

Accounts Payable and Annual Closing Process

Observation

There were significant misstatements in accounts payable at year end for the FEMA, HUD, and Capital Projects funds.

Recommendation

The City should have a written and formal policy for the year-end financial closing process and should be strictly followed to prevent misstatement of account balances related to a specific year. The City should also implement cutoff procedures as a part of its annual closing process to ensure that accounts payable and encumbrances are recorded in the proper period.

Management's Response
Unresolved

Board of Liquidation

Observation

The Board of is included as the City's Debt Service fund, and is responsible for all matters relating to the bonded debt of the City. The Board prepares its financial statements on a modified cash basis. The City's financial statements are presented on both a modified accrual and full accrual basis. Therefore, the Board's financial statements must be converted for presentation in the City's financial statements. The City does not have a process in place to obtain necessary conversion information from the Board, including investment fair value, property tax receivable, deferred loss on refunding, and accrued interest, as applicable.

Recommendation

The City should develop a process to obtain necessary information from the Board to ensure financial statements are presented on a modified accrual basis for presentation in the governmental funds and accrual basis for the government-wide financial statements. The City should also ensure it receives applicable information to record and disclose refunding transactions in accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities*.

The Honorable Mayor and Members of the
City Council of the City of New Orleans, Louisiana
June 30, 2008
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Management's Response
Resolved

Component Units

Observation

The City has not maintained appropriate documentation to evidence its evaluation of component units in accordance with GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining whether Certain Organizations Are Component Units - an amendment of GASB Statement 14*.

Recommendation

The City should prepare and maintain adequate documentation, including by-laws, articles of incorporation and other documents, supporting the component unit evaluation and conclusions.

Management's Response
Resolved

On-Behalf Payments

Observation

The City did not record in the General Fund on behalf payments for supplemental pay for police and fire personnel. GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, requires an employer government to recognize revenue and expenditures or expenses for on-behalf payments for fringe benefits and salaries. The employer government should recognize revenue equal to the amounts that third-party recipients of the payments received and that are receivable at year-end for the current fiscal year.

Recommendation

The City should obtain the necessary information at year-end to record on-behalf payments as intergovernmental revenue and public safety expense.

Management's Response
Resolved

System Conversion Process

Observation

The City has only converted the general fund and the special revenue agency funds to the Great Plains system from AFIN. The Grant Funds and Capital Project Fund remained in the AFIN system, therefore causing significant difficulty in auditing two separate systems. The City employees were not properly trained on the functionality and utilization of the new system, therefore resulting in significant inefficiencies in trying to obtain information from the new system. The City is still relying on Great Plains and other Microsoft contractors to assist in the recording and retrieving of specific financial information.

Recommendation



The Honorable Mayor and Members of the
City Council of the City of New Orleans, Louisiana
June 30, 2008
Page 7 of 7

The City should convert the remaining funds from the AFIN system to the Great Plains system and ensure the safety and record-keeping of all documentation surrounding this conversion. The City should ensure that all employees are adequately trained and cross-trained over the various functions of recording, processing, and retrieving information relating to the Great Plains system.

Management's Response
Unresolved

Review of Journal Entries

Observation
During our audit we noted that some journal entries did not have evidence of review.

Recommendation
All journal entries should contain evidence of who prepared and who reviewed each entry.

Management's Response
Unresolved

* * * * *

In addition, we identified certain deficiencies in internal control that we consider to be reportable conditions or material weaknesses and communicated them in writing to management and those charged with governance on June 30, 2008.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the City's organization gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

This report is intended solely for the information and use of the Mayor, members of City Council, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

The City's written response to our comments and recommendations has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Robert A. Thibault & Nottelville



CITY OF NEW ORLEANS

**SINGLE AUDIT REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2007**

**CITY OF NEW ORLEANS
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**INDEPENDENT AUDITORS' REPORT ON THE
SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS**



Member
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INDEPENDENT AUDITORS' REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To the Members of the City Council and the
Honorable C. Ray Nagin, Mayor
City of New Orleans
New Orleans, Louisiana

We have audited the Schedule of Expenditures of Federal Awards of the City of New Orleans (the City) for the year ended December 31, 2007. The Schedule of Expenditures of Federal Awards is the responsibility of the management of the City. Our responsibility is to express an opinion on the Schedule of Expenditures of Federal Awards based on our audit. The accompanying Schedule of Expenditures of Federal Awards is not a part of the City's basic financial statements for the year ended December 31, 2007. The basic financial statements of the City are audited by other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the provisions of Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule of Expenditures of Federal Awards is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule of Expenditures of Federal Awards. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Schedule of Expenditures of Federal Awards presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Schedule of Expenditures of Federal Awards of the City of New Orleans presents fairly, in all material respects, the expenditures of Federal awards for all Federal programs by the City of New Orleans for the year ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

**INDEPENDENT AUDITORS' REPORT ON THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

To the Members of the City Council and the
Honorable C. Ray Nagin, Mayor
City of New Orleans
New Orleans, Louisiana

Page 2

As discussed, in Notes 4, 5 and 9, the City has been cited by Federal agencies for certain ineligible and disallowed costs and did not comply with certain contractual and programmatic requirements with regard to its Federal programs during the year ended December 31, 2007 and in previous years. The determination of whether these instances of noncompliance will ultimately result in the remittance of ineligible and disallowed costs cannot presently be determined.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2008 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Bruno & Tervalon LLP

**BRUNO & TERVALON LLP
CERTIFIED PUBLIC ACCOUNTANTS**

June 20, 2008

**SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS**

CITY OF NEW ORLEANS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007

<u>FEDERAL GRANTOR/PROGRAM NAME</u>	<u>FEDERAL CFDA or OTHER NUMBER</u>	<u>PASS- THROUGH ENTITY'S NUMBER</u>	<u>ACTIVITY</u>
<u>U.S. Department of Agriculture</u>			
<u>Direct Awards</u>			
Agricultural Research - Basic and Applied	10.001	----	\$ 325,356
Subtotal - Direct Awards			<u>325,356</u>
<u>Pass-Through Awards</u>			
State of Louisiana Department of Social Services:			
Special Supplemental Nutrition Program for Women, Infants and Children - Administrative Costs	10.557	CFMS641737	280,051
Special Supplemental Nutrition Program for Women, Infants and Children - Food Issuance (NOTE 13)	10.557	CFMS641737	2,970,741
Associated Catholic Charities:			
Commodity Supplemental Food Program	10.565	CSFP2007	147,845
Commodity Supplemental Food Program	10.565	CSFP2008	<u>66,324</u>
Subtotal - Pass-Through Awards			<u>3,464,961</u>
Total U.S. Department of Agriculture			<u>3,790,317</u>
<u>U.S. Department of Commerce</u>			
<u>Direct Awards</u>			
Minority Business Enterprise Centers	11.800	----	<u>145,500</u>
<u>Pass-Through Awards</u>			
State of Louisiana Department of Natural Resource:			
Coastal Zone Management Administration	11.419	2503-05-07	26,101
Coastal Zone Management Administration	11.419	2515-08-06	<u>5,940</u>
Subtotal - Pass-Through Awards			<u>32,041</u>
Total U.S. Department of Commerce			<u>177,541</u>

See the Notes to the Schedule of Expenditures of Federal Awards.

CITY OF NEW ORLEANS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007

<u>FEDERAL GRANTOR/PROGRAM NAME</u>	<u>FEDERAL CFDA or OTHER NUMBER</u>	<u>PASS- THROUGH ENTITY'S NUMBER</u>	<u>ACTIVITY</u>
<u>U.S. Department of Defense</u>			
<u>Direct Awards</u>			
Community Base Reuse Plans	12.612	----	\$ 182,134
Total U.S. Department of Defense			182,134
<u>U.S. Department of Housing and Urban Development</u>			
<u>Direct Awards</u>			
Community Development Block Grant	14.218	----	12,854,226
Urban Development Action Grants-Grantee Loans (NOTE 6)	14.221	----	5,872,299
Urban Development Action Grants-Grantee Loans- Program Income	14.221	----	1,038,018
Emergency Shelter Grants Program	14.231	----	36,725
Shelter Plus Care	14.238	----	355,767
Home Investment Partnership Program	14.239	----	5,374,983
Housing Opportunities for Persons with AIDS	14.241	----	3,567,054
Brownsfield Economic Development Initiative- Grantee Loan (NOTE 8)	14.246	----	500,000
Community Development Block Grant-Section 108 Guarantee Loans (NOTE 7)	14.248	----	32,405,000
Community Development Block Grant-Section 108 Guarantee Loan-Program Income	14.248	----	1,594,745
Lead-Based Paint Hazard Control	14.900	----	70,615
Subtotal - Direct Awards			63,669,432
<u>Passed - Through Awards</u>			
State of Louisiana			
Emergency Shelter Grants Program	14.231	CFMS 610763, 624070, 636054	112,446
Subtotal - Awards from Pass-Through Entities			112,446
Total U.S. Department of Housing and Urban Development			63,781,878

See the Notes to the Schedule of Expenditures of Federal Awards.

CITY OF NEW ORLEANS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007

FEDERAL GRANTOR/PROGRAM NAME	FEDERAL CFDA or OTHER NUMBER	PASS- THROUGH ENTITY'S NUMBER	ACTIVITY
<u>U.S. Department of Justice</u>			
<u>Direct Awards</u>			
Supervised Visitation and Safe Exchange Program	16.527	----	\$ 35,552
Grants to Encourage Arrest Policies	16.590	----	440,262
Public Safety Partnership and Community Policing	16.710	----	4,762,533
Edward Byrne Memorial Justice Assistance Grant Program	16.738	----	585,608
Secure Our Schools	16.CKWX	----	52,069
Corruption Task Force	16.DDBX	----	879,091
Subtotal - Direct Awards			6,755,115
<u>Passed - Through Awards</u>			
State of Louisiana Commission on Law Enforcement:			
Juvenile Accountability Block Grants	16.523	A03-8-060	13,015
Juvenile Justice and Delinquency Prevention	16.540	J05-9-ADM	1,810
Justice Research, Evaluation and Development Grants	16.560	G05-8-006	18,131
Crime Victim Assistance	16.575	C04/05-9-ADM	9,001
Edward Byrne Memorial Formula Grant Program	16.579	Various	336,224
Violence Against Women Formula Grants	16.588	M05/61-9/8-001/016	123,408
Edward Byrne Memorial Justice Assistance Grant Program	16.738	Y06-8-028 & 001	5,631,128
Subtotal - Awards from Pass-Through Entities			6,132,717
Total U.S. Department of Justice			12,887,832
<u>U.S. Department of Labor</u>			
<u>Passed - Through Awards</u>			
State of Louisiana Department of Labor:			
Workforce Investment Act-Adult	17.258	AA-102250-00-50	3,097,786
Workforce Investment Act-Youth	17.259	AA-102250-00-50	1,667,289
Workforce Investment Act-Dislocated Worker	17.260	AA-102250-00-50	719,236
Workforce Investment Act-Job Readiness	17.ST04	LWIA121ST06	44,411
Workforce Investment Act-Job Readiness	17.ST05	LWIA121ST07	80,149
Workforce Investment Act-Workforce Incentive Grants	17.260	CFMS602798	1,671,302
Subtotal - Awards from Pass-Through Entities			7,280,173
Total U.S. Department of Labor			7,280,173

See the Notes to the Schedule of Expenditures of Federal Awards.

**CITY OF NEW ORLEANS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

FEDERAL GRANTOR/PROGRAM NAME	FEDERAL CFDA or OTHER NUMBER	PASS- THROUGH ENTITY'S NUMBER	ACTIVITY
<u>U.S. Department of Transportation</u>			
<u>Direct Awards</u>			
Airport Improvement Program-New Orleans Aviation Board	20.106	-----	\$ 9,348,289
Subtotal - Direct Awards			<u>9,348,289</u>
<u>Passed - Through Awards</u>			
State of Louisiana Department of Transportation: State and Community Highway Safety Grants	20.600	Various	<u>5,795,794</u>
Subtotal - Awards from Pass-Through Entities			<u>5,795,794</u>
Total U.S. Department of Transportation			<u>15,144,083</u>
<u>U.S. Environmental Protection Agency</u>			
<u>Direct Awards</u>			
New Orleans Brownsfield Project - Site Assessment and Cleanup Cooperative Agreements	66.818	-----	<u>161,205</u>
Subtotal - Direct Awards			<u>161,205</u>
Total U.S. Environmental Protection Agency			<u>161,205</u>

See the Notes to the Schedule of Expenditures of Federal Awards.

CITY OF NEW ORLEANS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007

FEDERAL GRANTOR/PROGRAM NAME	FEDERAL CFDA or OTHER NUMBER	PASS- THROUGH ENTITY'S NUMBER	ACTIVITY
<u>U.S. Department of Health and Human Services</u>			
<u>Direct Awards</u>			
Consolidated Health Centers - Healthcare for the Homeless	93.224	----	\$ 1,201,236
Medical Response	93.282/233	----	173,103
Center for Disease Control and Prevention-Asthma, Diabetes and Obesity	93.283	----	1,969,420
HIV Emergency Relief Project Grant-Ryan White Program	93.914	----	7,550,085
Healthy Start Initiative-Great Expectations Program	93.926	----	2,498,651
Subtotal - Direct Awards			<u>13,392,495</u>
<u>Passed - Through Awards</u>			
State of Louisiana Department of Health and Hospitals:			
Early Periodic Screening, Diagnosis and Treatment	93. ---	1441449	353,302
Early Periodic Screening, Diagnosis and Treatment	93. ---	Various	212,776
Centers for Disease Control and Prevention - Investigation and Technical Assistance	93.283	N/A	33,971
Social Services Block Grant	93.667	DHH640580	1,685,700
Preventative Health and Health Services Block Grant	93.991	N/A	145,946
Preventative Health and Health Services Block Grant	93.991	DHH041259/049010	123,769
Maternal and Child Health Services Block Grant	94.994	DHH644156/046888	4,997
Subtotal - Awards from Pass-Through Entities			<u>2,560,461</u>
Total U.S. Department of Health and Human Services			<u>15,952,956</u>

See the Notes to the Schedule of Expenditures of Federal Awards.

CITY OF NEW ORLEANS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007

FEDERAL GRANTOR/PROGRAM NAME	FEDERAL CFDA or OTHER NUMBER	PASS- THROUGH ENTITY'S NUMBER	ACTIVITY
<u>U.S. Department of Homeland Security</u>			
<u>Direct Awards</u>			
Emergency Food and Shelter	97.024	----	\$ 24,497
Assistance to Firefighters Grant	97.044	----	342,402
Metropolitan Medical Response	97.071	----	146,103
Subtotal - Direct Awards			<u>513,002</u>
<u>Passed - Through Awards</u>			
State of Louisiana			
State Homeland Security Grants	97.004	2005GET5004S	74,048
State Homeland Security Grants	97.004	2006GET0069S	311,604
Urban Areas Security Initiatives	97.008	2004-TUT-40018	499,733
Urban Areas Security Initiatives	97.008	2005-GET-5004U	603,502
Urban Areas Security Initiatives	97.008	2006-GET-0069U	1,386,703
Special Community Disaster Loans	97.030	EMT-2006-LF-1603LA03	120,000,000
Special Community Disaster Loans	97.030	EMT-2006-LF-1603LA03A	50,358,404
Emergency Management-State and Local Assistance	97.036	071-55000	44,649,414
Citizens Corps	97.053	2004GET4004C	12,153
Citizens Corps	97.053	2005GET5004C	10,470
Law Enforcement Terrorism Prevention Program	97.074	2005GET5004L	10,390
Law Enforcement Terrorism Prevention Program	97.074	2006GET0069L	17,249
Law Enforcement Terrorism Prevention Program	97.074	X05-9-001	774,174
Buffer Zone Protection Program	97.078	2005GRT50057	197,949
Subtotal - Awards from Pass-Through Entities			<u>218,905,793</u>
Total U.S. Department of Homeland Security			<u>219,418,795</u>
Total Expenditures of Federal Awards			<u>\$ 338,776,914</u>

See the Notes to the Schedule of Expenditures of Federal Awards.

**NOTES TO THE SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS**

CITY OF NEW ORLEANS
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 1 – BACKGROUND:

The City of New Orleans (the City) was incorporated in 1805. The City's system of government is established by the Home Rule Charter which became effective in 1954. The City operates under a Mayor-Council form of government. The City provides the following types of services as authorized by its charter: public health and safety, streets, sanitation, water and sewerage, planning and zoning, recreation and general and administrative services. Education and welfare are administered by other governmental entities.

NOTE 2 – SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all Federal award programs of the City that were received directly from Federal agencies or passed through other entities and governmental agencies.

The City has prepared this Schedule of Expenditures of Federal Awards to comply with the provisions of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. OMB Circular A-133 stipulates that a Schedule of Expenditures of Federal Awards be prepared showing total expenditures of each Federal award program as identified in the Catalog of Federal Domestic Assistance (CFDA) and for other federal financial awards that have not been assigned a catalog number.

NOTE 3 – BASIS OF ACCOUNTING/PRESENTATION:

Grant expenditures in the Schedule of Expenditures of Federal Awards are generally recognized under the modified accrual basis of accounting when the related liability is incurred, if measurable. Vacation and sick leave are recognized when paid. Current grant expenditures include direct expenditures and expenditures of federal awards passed through other governmental agencies.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The preparation of the Schedule of Expenditures of Federal Awards in conformity with accounting principles generally accepted in the United States of America requires management to make certain assumptions that affect the reported amounts of expenditures during the reporting period. Actual results could differ from those estimates.

CITY OF NEW ORLEANS
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 4 – QUESTIONED COSTS:

The City has expended in previous years certain federal grant funds in a manner that may have violated certain provisions of the related compliance requirements and grant agreements. The related questioned costs amounts as reported in the current and prior Single Audit reports pertinent to such issues excluding audit findings that are no longer applicable based on the provisions of OMB Circular A-133, Section 315(b)(4) are as follows:

<u>Program Year</u>	<u>Amount</u>
<u>City of New Orleans</u>	
December 31, 2004 through 2006	\$ 1,365,194
December 31, 2007	<u>1,248,953</u>
Total	\$ <u>2,614,147</u>

The ultimate resolution or determination as to whether the questioned cost will be allowable or unallowable related to the applicable grants will be made by the applicable funding sources and cannot be determined at this time. As such, management of the City is presently unable to determine a reasonable estimate of any possible Federal claims for refunds of the applicable grant funds. Accordingly, no provision or adjustment has been made to the Schedule of Expenditures of Federal Awards.

CITY OF NEW ORLEANS
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 5 – INELIGIBLE, DISALLOWED AND QUESTIONED COSTS:

As of the date of this report, funding sources have reviewed the operations and activities of certain programs and have rendered determinations as detailed in the status of other audits performed by Federal Auditors. Such ineligible and disallowed cost aggregated to \$2,014,229 as of December 31, 2007. When required, the repayment of any remaining ineligible and disallowed costs is funded from non-federal funds. However, the Schedule of Expenditures of Federal Awards has not been adjusted for any such repayments. See pages 46 through 50 for further details.

NOTE 6 – GRANTEE LOANS – URBAN DEVELOPMENT ACTION GRANTS:

The City has received certain grant awards from the United States Department of Housing and Urban Development (HUD) for the purpose of providing loans to the private sector for completion of projects that will stimulate economic development activity in the City. Twelve (12) of these loans are outstanding at December 31, 2007, totaling \$5,872,299 which bear interest at rates ranging from zero percent (0%) to seven percent (7%). These loans are receivable over a fifteen (15) to thirty (30) year period and are recorded as loans receivable at December 31, 2007. Once the loan payments are received and the project is accepted by HUD, the City may use the amounts received for other allowable economic development activities as specified in the grant agreement.

During the year ended December 31, 2000, the City utilized \$1,000,000 of UDAG program income to fund the American Can Project. Such funding was in the form of a loan which bears interest at 2% and matures in January 2040.

CITY OF NEW ORLEANS
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 7 -- HOUSING AND URBAN DEVELOPMENT SECTION 108 LOANS:

The City has entered into contracts for Loan Guarantee Assistance under Section 108 of the Housing and Community Development Act of 1974, with the Secretary of Housing and Urban Development (HUD) as guarantor. The City received these loans in order to fund its commitments to Jazzland, American Can, Palace of the East, LLC and Louisiana Artist Guild Projects. During the years prior to and as of December 31, 2005, \$25,300,000 was disbursed to Jazzland; \$5,000,000 was disbursed to the American Can Project; \$5,000,000 was disbursed to the Palace of the East, LLC (Grand Theatre) and \$7,100,000 to Louisiana Artist Guild.

These loans consist of notes bearing interest at 8.70% to 8.75% or variable interest rates based on the London Inter-bank Offered Rate (LIBOR). As of December 31, 2007, the entire remaining balance of \$41,462,720 due from these entities is recorded as a receivable in the City's financial statements and the balance due HUD of \$32,405,000 is recorded as a payable in the City's financial statements and reflected in the Schedule of Expenditures of Federal Awards.

On February 28, 2002, Jazzland filed a Chapter 11 bankruptcy proceeding and as a result the City restructured the financing naming the New Orleans Industrial Development Board, who acquired certain assets of Jazzland, as the new obligator of the Jazzland loan. Pursuant to that agreement, monthly rental payments of \$116,667 are received from the New Orleans Industrial Development Board and recognized as rental income by the City to defray the required debt service payments to HUD by the City.

CITY OF NEW ORLEANS
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 7 – HOUSING AND URBAN DEVELOPMENT SECTION 108 LOANS:

The requirements to amortize the remaining Section 108 loans are as follows:

	<u>Due to HUD</u>	<u>Due from Projects</u>
<u>Jazzland Project</u>		
2008	\$ 1,335,000	\$ 24,375,518
2009	1,420,000	0
2010	1,510,000	0
2011	1,610,000	0
2012	1,715,000	0
Thereafter	<u>10,405,000</u>	<u>0</u>
	<u>17,995,000</u>	<u>24,375,518</u>
<u>American Can Project</u>		
2008	240,000	358,884
2009	250,000	103,467
2010	270,000	105,553
2011	280,000	107,680
2012	300,000	109,849
Thereafter	<u>2,670,000</u>	<u>4,016,754</u>
	<u>4,010,000</u>	<u>4,802,187</u>
<u>Grand Theatre Project</u>		
2008	220,000	879,690
2009	230,000	232,500
2010	240,000	242,500
2011	250,000	252,500
2012	260,000	263,750
Thereafter	<u>3,020,000</u>	<u>2,951,250</u>
	<u>4,220,000</u>	<u>4,822,190</u>

CITY OF NEW ORLEANS
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 7 – HOUSING AND URBAN DEVELOPMENT SECTION 108 LOANS:

	<u>Due to HUD</u>	<u>Due from Projects</u>
<u>Louisiana Artist Guild</u>		
2008	\$ 266,000	\$ 1,493,825
2009	282,000	267,000
2010	298,000	287,000
2011	316,000	308,000
2012	335,000	330,000
Thereafter	<u>4,683,000</u>	<u>4,777,000</u>
	<u>6,180,000</u>	<u>7,462,825</u>
	<u>\$ 32,405,000</u>	<u>\$ 41,462,720</u>

NOTE 8 – BROWNSFIELD ECONOMIC DEVELOPMENT INITIATIVE:

During the year ended December 31, 2000, the City received a Brownsfield Economic Development Initiative (BEDI) grant in the amount of \$1,000,000 that was utilized to fund the City's American Can renewal project. The City disbursed \$500,000 to the project in the form of a grant and \$500,000 in the form of a loan required to be repaid at 2% interest. The loan matures in January, 2040. The requirements to amortize the BEDI loan are as follows:

	<u>Principal</u>
<u>American Can Project</u>	
2008	\$ 55,785
2009	10,344
2010	10,553
2011	10,765
2012	10,982
Thereafter	<u>401,571</u>
	<u>\$ 500,000</u>

CITY OF NEW ORLEANS
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 9 – CONTINGENCY:

The City is the recipient of numerous Federal grants and awards. These grants and awards are governed by various Federal requirements, guidelines, regulations and contractual agreements.

The administration of the programs and activities funded by these grants and awards is under control of the City and is subject to audit and review by the applicable funding sources. Any grant or award found not to be properly spent in accordance with the requirements, guidelines, regulations and contractual agreements of the funding source may be subject to recapture.

The audit of the Federal award programs of the City for the year ended December 31, 2007 disclosed instances of non-compliance that may be material to the Schedule of Expenditures of Federal Awards, but for which the ultimate resolution cannot be presently determined.

NOTE 10 – MAJOR FEDERAL AWARDS PROGRAM:

The City's major Federal awards programs for the year ended December 31, 2007 were determined based upon program activity. The City's "Type A" Federal awards programs for the year ended December 31, 2007 were all Federally assisted programs for which program activity was equal to or greater than \$3,000,000 during the year ended December 31, 2007.

CITY OF NEW ORLEANS
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 11 – FEDERAL EXPENDITURES TO SUBRECIPIENTS:

Included in the Federal expenditures presented in the Schedule of Expenditures of Federal Awards are outstanding loan and loan guarantees and Federal awards disbursed by the City to sub-recipients associated with its major Federal Award programs as follows:

<u>Program Title</u>	<u>CFDA #</u>	<u>Amount</u>
Community Development Block Grant	14.218	\$ 2,873,968
Urban Development Action Grants	14.221	5,872,299
Home Investment Partnership Program	14.239	3,899,207
Housing Opportunities for Persons with AIDS	14.241	4,213,977
Community Development Block Grant- Section		
108 Guarantee Loans	14.248	32,405,000
Workforce Investment Act	17.258/259	6,513,306
	& 260	
HIV Emergency Relief Project Grant	93.914	<u>7,858,387</u>
		<u>\$ 63,636,144</u>

CITY OF NEW ORLEANS
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 12 – STATE GRANTS:

The City receives non-Federal funds from the State of Louisiana to perform certain public programs. Expenditures and adjustments to expenditures for the year ended December 31, 2007 are as follows:

<u>State Grantor/Program Name</u>	<u>Contract Number</u>	<u>Amount</u>
<u>Louisiana Department of Health and Hospitals</u>		
O.P Walker Clinic	DHH046534	\$ 164
Emergency Medical Services	EMS-BIO-	
Bioterrorism	2007	42,948
Strategic Prevention Framework	DHH019716	24,379
McDonogh #35 Clinic	DHH006578	61,887
McDonogh #35 Clinic	DHH049359	25,314
Crisis Trauma Center	DHH639440	63,567
		<u>218,259</u>
<u>Louisiana Department of Culture, Recreation and Tourism</u>		
Library State Aid	N/A	86,630
		<u>86,630</u>
<u>Louisiana Department of Public Safety</u>		
Construction Code Enforcement	K07-309	490,014
Red Light Enforcement Grant	PT-07-33-00	78,260
		<u>568,274</u>

CITY OF NEW ORLEANS
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 12 – STATE GRANTS, continued

<u>State Grantor/Program Name</u>	<u>Contract Number</u>	<u>Amount</u>
<u>Louisiana Commission on Law Enforcement</u>		
Electronic Equipment Grant	P07-9-001	10,864
Electronic Equipment Grant	P07-9-002	7,955
Corrections Training	P07-8-COR	24,650
Corrections Training	P07-8-BAS	23,250
Peace Officer Standards and Training Grant	P07-9-ADM	7,950
		<u>74,669</u>
<u>Louisiana Department of Economic Development</u>		
Film Commission Grant		<u>31,766</u>
		<u>31,766</u>
<u>Louisiana Department of Transportation and Development</u>		
Earhart Corridor	742-07-26	83,702
Earhart Corridor Segment II	N/A	143,506
Earhart Corridor Segment III	N/A	<u>228,909</u>
		<u>456,117</u>
Total State Grant Expenditures		<u>\$ 1,435,715</u>

NOTE 13 – SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS AND CHILDREN – FOOD ISSUANCE

The City, in conjunction with the State of Louisiana Department of Health and Hospitals, administers the Women, Infants and Children (WIC) Supplemental Food Issuance Program. As a result, eligible participants received WIC drafts to obtain WIC food packages totaling \$2,970,741.

CITY OF NEW ORLEANS
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 14 – SPECIAL COMMUNITY DISASTER LOAN PROGRAM:

On October 7, 2005, the Community Disaster Loan Act of 2005, P.L. 109-88 was signed into law. The Act provides for disaster assistance following Hurricane Katrina in Special Community Disaster Loans (CDL) to local governments affected by the hurricane. This Federal aid was made available to local governments specifically to replace revenues lost as the result of natural or man-made disasters. In November, 2005 and August 2006, the City executed promissory notes in the amount of \$120,000,000 each payable to the Federal Emergency Management Agency. The notes bear interest at rates of 2.75% and 2.93% with a due dates of November 14, 2010 and August 27, 2011, respectively. The normal term of CDL loans is five years. The loans typically take the form of a five-year balloon. That is, the full principal and accumulated interest are due all together at the end of the five-year term. The Associate Director of FEMA may consider requests for extension, based in the local government's financial condition. However, the total term of the loan may not exceed 10 years. At December 31, 2007, the City had drawn-down \$120,000,000 and \$50,358,404, respectively, of the promissory note amounts.

NOTE 15 – OTHER MATTERS:

The effects of Hurricanes Katrina and Rita on the Gulf Coast, Louisiana and Greater New Orleans areas resulted in considerable loss of life and property as well as to exacerbate weakening economic conditions. The City and its facilities were not spared the effects of Hurricanes Katrina and Rita.

The primary financial statement impact of these storms pertains to the City's property and infrastructure. During the year ended December 31, 2007, the City primarily focused on service restoration at its primary facilities. Ultimate restoration, as well as impact on future operations, cannot be determined at this time.

**INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Members of the City Council and the
Honorable C. Ray Nagin, Mayor
City of New Orleans
New Orleans, Louisiana

We have audited the Schedule of Expenditures of Federal Awards of the City of New Orleans (the City) as of and for the year ended December 31, 2007, and have issued our report thereon dated June 20, 2008. An explanatory paragraph was included in our report indicating that the City has been cited by federal agencies for certain ineligible and disallowed costs and did not comply with certain contractual and programmatic requirements with regard to its federal programs during the year ended December 31, 2007 and in previous years, however, the determination of whether these instances of noncompliance will ultimately result in remittance of ineligible and disallowed cost cannot presently be determined. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Schedule of Expenditures of Federal Awards but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the City's Schedule of Expenditures of Federal Awards that is more than inconsequential will not be prevented or detected by the City's internal control.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Members of the City Council and the
Honorable C. Ray Nagin, Mayor
City of New Orleans
New Orleans, Louisiana

Internal Control Over Financial Reporting, continued

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's Schedule of Expenditures of Federal Awards is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the Schedule of Expenditures of Federal Awards amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Members of the City Council and the
Honorable C. Ray Nagin, Mayor
City of New Orleans
New Orleans, Louisiana

We noted certain matters that we have reported to management of the City in a separate letter dated June 20, 2008.

The City's responses to the findings identified in our audit are described in a separate Corrective Action Plan. We did not audit the City's response contained in the Corrective Action Plan and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City Council, the Mayor, management, the Louisiana Legislative Auditor and Federal awarding agencies and pass-through entities and is not intended and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Louisiana Legislative Auditor as a public document.

Bruno & Tervalon LLP

**BRUNO & TERVALON LLP
CERTIFIED PUBLIC ACCOUNTANTS**

June 20, 2008

**INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

To the Members of the City Council and the
Honorable C. Ray Nagin, Mayor
City of New Orleans
New Orleans, Louisiana

Compliance

We have audited the compliance of the City of New Orleans (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended December 31, 2007. The City's major Federal programs are identified in the Summary of Independent Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

To the Members of the City Council and the
Honorable C. Ray Nagin, Mayor
City of New Orleans
New Orleans, Louisiana

Compliance, continued

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended December 31, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned cost as items 2007-01 through 2007-08.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance.

A control deficiency in the City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

To the Members of the City Council and the
Honorable C. Ray Nagin, Mayor
City of New Orleans
New Orleans, Louisiana

Internal Control Over Compliance, continued

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be detected by the City's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The City's responses to the findings identified in our audit are described in a separate Corrective Action Plan. We did not audit the City's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City Council, the Mayor, management, the Louisiana Legislative Auditor and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Louisiana Legislative Auditor as a public document.

Bruno & Tervalon LLP

**BRUNO & TERVALON LLP
CERTIFIED PUBLIC ACCOUNTANTS**

January 20, 2008

SCHEDULE I

**SUMMARY OF INDEPENDENT AUDITORS'
RESULTS**

SCHEDULE I

CITY OF NEW ORLEANS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SUMMARY OF INDEPENDENT AUDITORS' RESULTS

1. Type of report issued on the Schedule of Expenditures of Federal Awards: Unqualified.
2. Did the audit disclose any material weaknesses in internal control over financial reporting? No.
3. Did the audit disclose any significant deficiencies in internal control over financial reporting that are not considered to be material weaknesses? None reported.
4. Did the audit disclose any non-compliance which is material to the Schedule of Expenditures of Federal Awards? Yes. (Additionally, an uncertainty exists whereby the ultimate resolution cannot be presently determined).
5. Did the audit disclose any material weaknesses in internal control over major Federal programs? No.
6. Did the audit disclose any significant deficiencies in internal control over major programs that are not considered to be material weaknesses? None reported.
7. Type of report issued on compliance for major programs: Unqualified.
8. Did the audit disclose any audit findings required to be reported in accordance with OMB Circular A-133, Section .510(a)? Yes.
9. Was a management letter issued? Yes.

SCHEDULE I

**CITY OF NEW ORLEANS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SUMMARY OF INDEPENDENT AUDITORS' RESULTS**

10. Identification of Major Programs:

CFDA #	Name of Federal Program
10.557	Special Supplemental Nutrition Program for Women, Infants and Children
14.218	Community Development Block Grant
14.221	Urban Development Action Grants-Grantee Loans
14.239	Home Investment Partnership Program
14.241	Housing Opportunities for Persons with AIDS
14.248	Community Development Block Grant - Section 108 Grantee Loans
16.710	Public Safety Partnership and Community Policing Grants
16.738	Edward Byrne Memorial Justice Assistance Grant- Hurricane Criminal Justice Infrastructure Recovery
17.258	Workforce Investment Act-Adult
17.259	Workforce Investment Act-Youth
17.260	Workforce Investment Act-Dislocated Worker
17.260	Workforce Investment Act-National Emergency Grant
20.106	Airport Improvement Program
20.600	State and Community Highway Safety
93.914	HIV Emergency Relief Project Grant-Ryan White
97.030	Special Community Disaster Loans
97.036	Emergency Management-State and Local Assistance

11. Dollar threshold used to distinguish between Type A and Type B Programs:
\$3,000,000.

12. Is the auditee a "low-risk" auditee, as defined by OMB Circular A-133? **No.**

SCHEDULE II

FINANCIAL STATEMENT FINDINGS

SCHEDULE II

**CITY OF NEW ORLEANS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FINANCIAL STATEMENT FINDINGS**

INTERNAL CONTROL OVER FINANCIAL REPORTING

No matters were reported

COMPLIANCE AND OTHER MATTERS

No matters were reported. We noted certain matters that we reported to management in a separate letter dated June 20, 2008.

SCHEDULE III

**FEDERAL AWARD FINDINGS AND QUESTIONED
COSTS**

SCHEDULE III

**CITY OF NEW ORLEANS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

FEDERAL COMPLIANCE

Audit Finding Reference Number

2007-01 Cash Management

Federal Program and Specific Federal Award Identification

Federal Agency/CFDA Number and Title

U.S. Department of Homeland Security

97.036 Emergency Management-State and Local Assistance

Federal Award Year

December 31, 2007

Pass-Through Entity

State of Louisiana

Criteria

OMB Circular A-133 Compliance Supplement Part 3, Section C stipulates that interest earned on advances by local government grantees and sub-grantees is required to be submitted promptly, but at least quarterly, to the Federal Agency. Up to \$100 per year may be kept for administrative expenses.

Conditions and Perspectives

The City of New Orleans did not keep track of the interest being earned on advances received under its Emergency Management (FEMA)-State and Local Assistance grant.

SCHEDULE III

**CITY OF NEW ORLEANS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

FEDERAL COMPLIANCE

Audit Finding Reference Number

2007-01 Cash Management, continued

Cause

The City of New Orleans did not assigned to a designated staff member the responsibility for tracking interest earned on advanced funds and for ensuring that interest earned is returned to the Federal agency at least quarterly as required by Federal regulations.

Questioned Costs

For purposes of this finding, we have not questioned any costs.

Effect

The City of New Orleans is not in compliance with Cash Management compliance requirements.

Recommendation

We recommend that the City of New Orleans identify an individual and assign the task of tracking interest earned on advanced funds to ensure that interest earned on advances are returned to the Federal agency at least quarterly as required by Federal regulations.

SCHEDULE III

**CITY OF NEW ORLEANS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

FEDERAL COMPLIANCE

Audit Finding Reference Number

2007-02 Davis-Bacon Act

Federal Program and Specific Federal Award Identification

Federal Agency/CFDA Number and Title

U.S. Department of Housing and Urban Development

14.239 Home Investment Partnership Program

Federal Award Year

December 31, 2007

Pass-Through Entity

Not Applicable

Criteria

OMB Circular A-133 Compliance Supplement Part 3, Section D stipulates contracts for the construction of affordable housing with 12 or more Home Investment Partnership Program (HOME) -assisted units are required to comply with the requirements of the Davis-Bacon Act. All laborers must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the U.S. Department of Labor.

Conditions and Perspectives

Based upon our audit procedures performed, it was determined that management of the City of New Orleans had not fully implemented the monitoring of construction contracts for compliance with the Davis-Bacon Act. The monitoring procedures have not been implemented for none on the construction related contracts administered with HOME funds.

SCHEDULE III

**CITY OF NEW ORLEANS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

FEDERAL COMPLIANCE

Audit Finding Reference Number

2007-02 Davis-Bacon Act, continued

Cause

According to management, proper communication between the construction office and monitoring office has not been established to ensure proper monitoring of the construction related activities within a timely fashion. Monitoring should be performed during the time of the construction.

Questioned Costs

For purposes of this finding, we have not questioned any costs.

Effect

The City of New Orleans is not in compliance with the Davis-Bacon Act compliance requirements.

Recommendation

We recommend that the City of New Orleans – HOME program implement procedures to ensure that monitoring be done for all construction activities within the prescribed time to ensure compliance with the Davis-Bacon Act.

SCHEDULE III

**CITY OF NEW ORLEANS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

FEDERAL COMPLIANCE

Audit Finding Reference Number

2007-03 Earmarking

Federal Program and Specific Federal Award Identification

Federal Agency/CFDA Number and Title

U.S. Department of Housing and Urban Development

14.218 Community Development Block Grant

Federal Award Year

December 31, 2007

Pass-Through Entity

Not Applicable

Criteria

OMB Circular A-133 Compliance Supplement Part 4, Section 4-14-218 indicates that the amount of CDBG funds obligated during the program year for public services must not exceed fifteen percent (15%) of the grant amount received for that year plus fifteen percent (15%) of the program income it received during the preceding program year.

Conditions and Perspectives

Based upon our audit recalculation, public service expenditures were approximately twenty-four percent (24%) of CDBG expenditures which exceeded the fifteen percent (15%) threshold.

SCHEDULE III

**CITY OF NEW ORLEANS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

FEDERAL COMPLIANCE

Audit Finding Reference Number

2007-03 Earmarking, continued

Cause

The cause of this condition could not be determined.

Questioned Costs

For purposes of this finding, we have questioned cost of \$1,248,953.

Effect

The City of New Orleans is not in compliance with the earmarking compliance requirements.

Recommendation

We recommend that the City of New Orleans implement procedures to ensure compliance with earmarking requirements.

SCHEDULE III

**CITY OF NEW ORLEANS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

FEDERAL COMPLIANCE

Audit Finding Reference Number

2007-04 Reporting

Federal Program and Specific Federal Award Identification

Federal Agency/CFDA Number and Title

U.S. Department of Housing and Urban Development

14.218 Community Development Block Grant

Federal Award Year

December 31, 2007

Pass-Through Entity

Not Applicable

Criteria

OMB Circular A-133 Compliance Supplement Part 4, Section 4-14-218 requires the auditor to test information extracted from the Integrated Disbursement and Information System (IDIS) reports C04PR03 (CDBG Activity Summary Report) and C04PR26 (CDBG Financial Summary).

Conditions and Perspectives

Based on our procedures performed, we noted material un-reconciled differences between CDBG expenditures and draw-downs per IDIS versus CDBG expenditures and draw-downs per accounting records.

SCHEDULE III

**CITY OF NEW ORLEANS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

FEDERAL COMPLIANCE

Audit Finding Reference Number

2007-04 Reporting, continued

Cause

There is no reconciliation process performed for CDBG amounts that are reported in IDIS versus CDBG amounts as reflected in the accounting records.

Questioned Costs

For purposes of this finding, we have not questioned any costs.

Effect

Un-reconciled differences between IDIS and accounting records

Recommendation

We recommend that the City of New Orleans periodically reconcile IDIS data to the comparable data in the accounting records.

SCHEDULE III

**CITY OF NEW ORLEANS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

FEDERAL COMPLIANCE

Audit Finding Reference Number

2007-05 Reporting

Federal Program and Specific Federal Award Identification

Federal Agency/CFDA Number and Title

U.S. Department of Housing and Urban Development

14.241 Housing Opportunities for Persons with AIDS

Federal Award Year

December 31, 2007

Pass-Through Entity

Not Applicable

Criteria

OMB Circular A-133 Compliance Supplement Part 4, Section 4-14-241 requires the auditor to test the financial data which is found in Part 3 – Program Expenditures and Housing Provided of HUD Form 40110 – Annual Progress Report (OMB No. 2506-0133).

Conditions and Perspectives

We received HUD Form 40110 – Annual Progress Report (OMB No. 2506-0133) however we were unable to agree the expenditure financial data to the accounting records or other supporting documentation.

SCHEDULE III

**CITY OF NEW ORLEANS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

FEDERAL COMPLIANCE

Audit Finding Reference Number

2007-05 Reporting, continued

Cause

We could not determine the cause of this condition

Questioned Costs

For purposes of this finding, we have not questioned any costs.

Effect

We were unable to test the financial data contained in HUD Form 40110 – Annual Progress Report (OMB No. 2506-0133).

Recommendation

We recommend that the financial data contained in Form HUD 40110 – Annual Progress Report (OMB No. 2506-0133) be prepared from or reconciled to the applicable accounting records.

SCHEDULE III

CITY OF NEW ORLEANS SCHEDULE OF FINDINGS AND QUESTIONED COSTS FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FEDERAL COMPLIANCE

Audit Finding Reference Number

2007-06 Sub-recipient Monitoring

Federal Program and Specific Federal Award Identification

Federal Agency/CFDA Number and Title

U.S. Department of Housing and Urban Development

14.239 Home Investment Partnership Program

Federal Award Year

December 31, 2007

Pass-Through Entity

Not Applicable

Criteria

OMB Circular A-133 Compliance Supplement Part 3, Section M stipulates that a pass-through entity is responsible for "Award Identification" and at the time of the award identifying to the sub-recipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency and applicable compliance requirements).

Conditions and Perspectives

During our audit, we noted that the contractual agreements with five (5) of sub-recipients tested did not include provisions detailing all the applicable Federal award information.

SCHEDULE III

CITY OF NEW ORLEANS SCHEDULE OF FINDINGS AND QUESTIONED COSTS FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FEDERAL COMPLIANCE

Audit Finding Reference Number

2007-06 Sub-recipient Monitoring, continued

Cause

The City of New Orleans failed to follow established regulations which require identifying to the sub-recipient the Federal award information.

Questioned Costs

For purposes of this finding, we have not questioned any costs.

Effect

The City of New Orleans is not in compliance with the sub-recipient monitoring compliance requirement.

Recommendation

We recommend that management of the City of New Orleans develop a monitoring plan to ensure that all sub-recipients receiving pass-through federal funds are fiscally and programmatically monitored and the contractual agreements have all required stipulations as required by federal regulations.

SCHEDULE III

CITY OF NEW ORLEANS SCHEDULE OF FINDINGS AND QUESTIONED COSTS FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FEDERAL COMPLIANCE

Audit Finding Reference Number

2007-07 Sub-recipient Monitoring

Federal Program and Specific Federal Award Identification

Federal Agency/CFDA Number and Title

U.S. Department of Housing and Urban Development

14.239 Home Investment Partnership Program

14.241 Housing Opportunities for Persons with AIDS

14.248 Community Development Block Grant - Section 108
Grantee Loans

U.S. Department of Health and Human Services

93.914 HIV Emergency Relief Project Grant-Ryan White

Federal Award Year

December 31, 2007

Pass-Through Entity

Not Applicable

Criteria

OMB Circular A-133 Compliance Supplement Part 3, Section M stipulates that a pass-through entity is responsible for ensuring required audits are completed within nine months of the end of the sub-recipient's audit period, issuing a management decision on audit findings within six months after receipt of the sub-recipient's audit report, and insuring that the sub-recipient takes timely and appropriate corrective action on all audit findings.

SCHEDULE III

**CITY OF NEW ORLEANS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

FEDERAL COMPLIANCE

Audit Finding Reference Number

2007-07 Sub-recipient Monitoring, continued

Conditions and Perspectives

During our audit, we noted that management of the City of New Orleans has not received or did not provide the auditors audit reports for the following grant programs and related number of sub-recipients.

<u>CFDA Number and Title</u>	<u>A-133 Audit Reports</u>
14.239 Home Investment Partnership Program	1
14.241 Housing Opportunities for Persons with AIDS	1
14.248 Community Development Block Grant - Section 108 Grantee Loans	2
93.914 HIV Emergency Relief Project Grant-Ryan White	7

Cause

The City of New Orleans' continues to need improvement related to certain aspects of sub-recipient monitoring.

Questioned Costs

For purposes of this finding, we have not questioned any costs.

SCHEDULE III

**CITY OF NEW ORLEANS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

FEDERAL COMPLIANCE

Audit Finding Reference Number

2007-07 Sub-recipient Monitoring, continued

Effect

The City of New Orleans is not in compliance with sub-recipient monitoring compliance requirements.

Recommendation

We recommend that management of the City of New Orleans ensure that all sub-recipients receiving pass-through federal funds submit audit reports as required by contractual agreement and Federal regulations and in cases of continued inability or unwillingness of a sub-recipient to have the required audits, the City take appropriate action using sanctions.

SCHEDULE III

CITY OF NEW ORLEANS SCHEDULE OF FINDINGS AND QUESTIONED COSTS FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FEDERAL COMPLIANCE

Audit Finding Reference Number

2007-08 Sub-recipient Monitoring

Federal Program and Specific Federal Award Identification

Federal Agency/CFDA Number and Title

U.S. Department of Housing and Urban Development

14.218 Community Development Block Grant
14.239 Home Investment Partnership Program
14.241 Housing Opportunities for Persons with AIDS
14.248 Community Development Block Grant - Section 108
Grantee Loans

U.S. Department of Health and Human Services

93.914 HIV Emergency Relief Project Grant-Ryan White

Federal Award Year

December 31, 2007

Pass-Through Entity

Not Applicable

Criteria

OMB Circular A-133 Compliance Supplement Part 3, Section M stipulates that a pass-through entity is responsible for "*During-the-Award Monitoring*" of the sub-recipient's use of Federal awards through reporting, site visits, regular contact and other means to provide reasonable assurance that the sub-recipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

CITY OF NEW ORLEANS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FEDERAL COMPLIANCE

Audit Finding Reference Number

2007- 08 Sub-recipient Monitoring, continued

Conditions and Perspectives

During our audit, we noted that management of the City of New Orleans continues to utilize agreed-upon procedures engagements to assist in fulfilling its sub-recipient monitoring responsibilities in addition to the sub-recipient monitoring field reports prepared internally. However, our review of sub-recipient agreed-upon procedures monitoring reports as well as sub-recipient monitoring field reports indicated that a majority of the sub-recipient monitoring was performed subsequent to the award period (after December 31, 2007) and many of the agreed-upon procedures reports were still in "Draft" form as of June 20, 2008 (the date of this report).

Cause

The City of New Orleans continues to need improvement related to certain aspects of sub-recipient monitoring.

Questioned Costs

For purposes of this finding, we have not questioned any costs.

Effect

It appears that the City of New Orleans is not in compliance with "*During-the-Award Monitoring*" sub-recipient monitoring compliance requirements.

Recommendation

We recommend that management of the City of New Orleans ensure that all sub-recipients receiving pass-through federal funds are monitored during the award period to ensure that sub-recipients are administering Federal awards in compliance with laws, regulations and the provisions of contracts and grant agreements and if performance goals are being achieved.

**CURRENT STATUS OF OTHER AUDITS
AND PROGRAM REVIEWS
PERFORMED BY FEDERAL AGENCIES**

**CITY OF NEW ORLEANS
CURRENT STATUS OF OTHER AUDITS
AND PROGRAM REVIEWS
PERFORMED BY FEDERAL AGENCIES**

**FEDERAL AGENCY: U.S. DEPARTMENT OF HOUSING AND URBAN
DEVELOPMENT**

SUBJECT: MONITORING AND TECHNICAL ASSISTANCE SITE VISIT

AUDIT PERIOD: FISCAL YEAR 2001

Background

On May 23, 2002, the City received notification from the U.S. Department of Housing and Urban Development (HUD) indicating that as a result of the monitoring and technical assistance site visit fifteen (15) programmatic/fiscal findings were cited. Additionally, questioned costs of \$11,116 related to the Community Development Block Grant (CDBG) were deemed not necessary for the operation of the CDBG program. The monitoring and technical assistance site visit report also contained four (4) areas of concern that while not based on statutory or regulatory requirements, if left uncorrected could become a finding. The City submitted corrective action plans to the findings. A communication dated April 9, 2004 from HUD indicating that five (5) findings remained open. Subsequently on January 21, 2005, the City was notified that only four (4) findings remained open. In correspondence dated June 17, 2005, the City received notice that two (2) findings remain open. Both concern the development of regulatory agreements in order to come to full compliance with the minimum period of affordability.

Current Status

No Change.

**CITY OF NEW ORLEANS
CURRENT STATUS OF OTHER AUDITS
AND PROGRAM REVIEWS
PERFORMED BY FEDERAL AGENCIES**

**FEDERAL AGENCY: U.S. DEPARTMENT OF HOUSING AND URBAN
DEVELOPMENT**

SUBJECT: MONITORING AND TECHNICAL ASSISTANCE SITE VISIT

AUDIT PERIOD: FISCAL YEAR 2002

Background

On March 12, 2003, the City received notification from the U.S. Department of Housing and Urban Development (HUD) indicating that as a result of the monitoring and technical assistance site visit twenty-one (21) programmatic/fiscal findings were cited. Additionally, questioned cost of \$33,484 related to the Community Development Block Grant (CDBG) program and Home Investment Partnership (HOME) program were deemed not necessary for the operation of the programs. The monitoring and technical assistance site visit report also contained four (4) areas of concern that while not based on statutory or regulatory requirements, if left uncorrected could become a finding. The City submitted corrective action plans to the findings. A communication dated April 9, 2004, related to the status of the monitoring findings contained in HUD's March 12, 2003, indicated that five (5) findings remained open including one (1) finding that could result in the City paying back to the HOME program from non-federal funds a total of \$4,065,046. Subsequently, on January 21, 2005, the City was notified that based on additional documentation provided by the City only two (2) findings remain open including the potential \$4,065,046 payback. In correspondence dated June 17, 2005, the City received notice that one (1) of the remaining two (2) findings has been cleared and one (1) remains open. The open finding pertains to HOME Assisted Rental Units Not Under Rental Affordability Requirements and the potential required payback has been reduced to \$688,573.

Current Status

No Change.

**CITY OF NEW ORLEANS
CURRENT STATUS OF OTHER AUDITS
AND PROGRAM REVIEWS
PERFORMED BY FEDERAL AGENCIES**

**FEDERAL AGENCY: U.S. DEPARTMENT OF HOUSING AND URBAN
DEVELOPMENT**

SUBJECT: MONITORING AND TECHNICAL ASSISTANCE SITE VISIT

AUDIT PERIOD: FISCAL YEAR 2003

Background

On April 9, 2004, the City received notification from the U.S. Department of Housing and Urban Development (HUD) related to the fiscal year 2003 monitoring visit which focused on the findings contained in the March 12, 2003 monitoring report. That report contained three findings. A corrective action plan was submitted by the City on May 10, 2004. Subsequently, on January 21, 2005, the City was notified that based on that additional documentation only one (1) finding remained open. In correspondence dated June 17, 2005, the City received notice that the remaining one (1) finding remains open.

Current Status

No Change.

**CITY OF NEW ORLEANS
CURRENT STATUS OF OTHER AUDITS
AND PROGRAM REVIEWS
PERFORMED BY FEDERAL AGENCIES**

**FEDERAL AGENCY: U.S. DEPARTMENT OF HOUSING AND URBAN
DEVELOPMENT**

SUBJECT: MONITORING AND TECHNICAL ASSISTANCE SITE VISIT

AUDIT PERIOD: FISCAL YEAR 2005

Background

In correspondence dated June 23, 2005, the City received notice of the occurrence of Monitoring/Technical Assistance Site Visit. That visit encompassed 2004 and 2005. Subsequently, in correspondence dated November 13, 2006, the City received notice of the results of the Monitoring/Technical Assistance Visit that included eight (8) observations, including one that related to a match deficiency of \$1,611,203 related to HOME funds expended during the period beginning in 1993 and ending in 2005. HUD granted forgiveness for match for 2003. The required match for 2004 and 2005 was \$1,325,656 and documentation delineating meeting the match requirement for 2004 and 2005 will be submitted to HUD.

Current Status

No Change.

**CITY OF NEW ORLEANS
CURRENT STATUS OF OTHER AUDITS
AND PROGRAM REVIEWS
PERFORMED BY FEDERAL AGENCIES**

**FEDERAL AGENCY: U.S. DEPARTMENT OF HOUSING AND URBAN
DEVELOPMENT**

SUBJECT: TIMELINESS NOTIFICATION

AUDIT PERIOD: N/A

Background

Pursuant to 24 CFR § 570.902 of the Community Development Block Grant (CDBG) regulations, HUD reviewed the City of New Orleans for compliance with the requirements for carrying out a CDBG program in a timely manner. A grantee is considered to be in compliance, if 60 days prior to the end of its program year there is no more than 1.5 times its annual grant remaining in the line-of-credit. When the 60-day test was conducted on November 2, 2006, it was calculated that the City had a balance in its line-of-credit of 1.69 times its annual grant. Accordingly the City is not in compliance with the timeliness standard.

Current Status

No Change.

Management Response

The 60 day testing indicated a line of credit of 1.69 times the annual grant. However, the correspondence from HUD dated January 7, 2007 indicated that a subsequent test would be conducted on November 2, 2007. If we were non-compliant, there would be a reduction in our 2006 in the amount excess the 1.5 times the annual grant. There was no such reduction.

EXIT CONFERENCE

CITY OF NEW ORLEANS EXIT CONFERENCE

An exit conference and other meetings were held with the City of New Orleans to discuss the Single Audit report. Those who were in attendance and participated in those discussions are noted below. The applicable sections of the Single Audit report were also discussed with the respective fiscal and programmatic department heads and staff.

CITY OF NEW ORLEANS

Councilmember Cynthia Hedge-Morrell	-- Chairperson, Budget/Audit/BoR Committee
Council President Arnie Fielkow	-- Member, Budget/Audit/BoR Committee
Councilmember Stacy S. Head	-- Member, Budget/Audit/BoR Committee
Ms. Julie Schwam Harris	-- Director, Federal and State Programs
Mr. Charles Winchester	-- Director, Compliance and Monitoring
Mr. Reginald Zeno	-- Director, Finance
Mr. Derrick Muse	-- Deputy Director of Finance
Mr. Kim Delarge	-- Comptroller

BRUNO & TERVALON LLP, CERTIFIED PUBLIC ACCOUNTANTS

Mr. Michael B. Bruno, CPA	-- Managing Partner
Mr. Armand E. Pinkney	-- Engagement Manager

SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS

City of New Orleans
For the Year Ended December 31, 2007

Finding Title: Subrecipient Monitoring

Reference Number(s): 2006-01
(from attached schedule of findings, may include more than one)

Initial Year of Finding: 2005

Amount of Questioned Costs in Finding: \$ -0-

Status of Questioned Costs (check one): Resolved _____ Unresolved: _____ N/A ☒

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?
Are they still in negotiation?
Not Applicable

Page Number (from Single Audit Report): 28

CFDA Numbers and Program Name(s): 14.218 Community Development Block Grant; 14.221 Urban Development Action Grant-Grantee Loans; 14.221 Community Development Block Grant-Section 108 14.248; 93.914 HIV Emergency Relief Project Grant-Ryan White

Federal Grantor Agency(ies): U.S. Department of Housing and Urban Development; U.S. Department of Health and Human Services

Status of Finding (check one):

Fully Corrected	<input checked="" type="checkbox"/>	Not Corrected	_____
Partially Corrected	_____	No Further Action Needed	_____
Change of Corrective Action	_____	(See OMB A-133 Section 315(b)(4))	

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

In 2006, the Management of the City of New Orleans reestablished its independent monitoring of
sub-recipients' fiscal and programmatic activities. Subrecipient monitoring was also conducted
by the City's staff. Management completed all scheduled 2006 monitoring by
December 31, 2007.

Preparer's Signature: Julie Schumann Harris

Phone Number: 504 658 4961

SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS

City of New Orleans
For the Year Ended December 31, 2007

Finding Title: Departmental Monitoring

Reference Number(s): 2006-02
(from attached schedule of findings, may include more than one)

Initial Year of Finding: 2005

Amount of Questioned Costs in Finding: \$ -0-

Status of Questioned Costs (check one): Resolved _____ Unresolved: _____ N/A X

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?
Are they still in negotiation?
Not Applicable

Page Number (from Single Audit Report): 30

CFDA Numbers and Program Name(s): 14.218 - Community Development Block Grant;
17.258 - Workforce Investment Act-Adult; 17.259 - Workforce Investment Act-Youth;
17.260 - Workforce Investment Act-Dislocated Worker; 93.914 - HIV Emergency Relief Project
Grant-Ryan White; 97.008 - Urban Areas Security Initiatives; 97.030 - Special Community
Disaster Loans

Federal Grantor Agency(ies): U. S. Department of Housing and Urban Development; U.S.
Department of Labor; U.S. Department of Health and Human Services; U.S. Department of
Homeland security

Status of Finding (check one):

Fully Corrected	<u> X </u>	Not Corrected	<u> </u>
Partially Corrected	<u> </u>	No Further Action Needed	<u> </u>
Change of Corrective Action	<u> </u>	{See OMB A-133 Section 315(b)(4)}	

Description of Status: (Include corrective action planned and anticipated completion date, if applicable):

The Management of the City of New Orleans implemented internal control procedures to
monitor departmental programmatic activities.

Preparer's Signature:

Phone Number:

Julie Schwann Hamro
504 658 4761

SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS

City of New Orleans

For the Year Ended December 31, 2007

Finding Title: Activities Allowed or Unallowed

Reference Number(s): 2006-03

(from attached schedule of findings, may include more than one)

Initial Year of Finding: 2006

Amount of Questioned Costs in Finding: \$ -0-

Status of Questioned Costs (check one): Resolved _____ Unresolved: _____ N/A X

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?
Are they still in negotiation?

Page Number (from Single Audit Report): 32

CFDA Numbers and Program Name(s): 97.036 Emergency Management – State and Local Assistance

Federal Grantor Agency(ies): U.S. Department of Homeland Security

Status of Finding (check one):

Fully Corrected _____

Partially Corrected _____

Change of Corrective Action _____

Not Corrected _____

No Further Action Needed _____

(See OMB A-133 Section 315(b)(4))

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

Three (3) of the five (5) transactions noted by the Independent Auditor have been approved and incorporated into a project worksheet. Management of the City of New Orleans will continue to work with FEMA on the remaining transactions.

Preparer's Signature:

Phone Number:

Julie Schwarm Harris
504-658-4961

SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS

City of New Orleans

For the Year Ended December 31, 2007

Finding Title: Reporting

Reference Number(s): 2006-04

(from attached schedule of findings, may include more than one)

Initial Year of Finding: 2005

Amount of Questioned Costs in Finding: \$ -0-

Status of Questioned Costs (check one): Resolved _____ Unresolved: _____ N/A ☒ X

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?
Are they still in negotiation?

Page Number (from Single Audit Report): 34

CFDA Numbers and Program Name(s): 14.218 - Community Development Block Grant; 14.221- Urban Development Action Grants-Grantee Loans; 14.248 - Community Development Block Grant - Section 108 Grantee Loans; 16.710 Public Safety Partnership and Community Policing; 17.258 - Workforce Investment Act-Adult; 17.259 - Workforce Investment Act-Youth; 17.260 - Workforce Investment Act-Dislocated Worker; Workforce Investment Act- Workforce Incentive Grant; 20.106 - Airport Improvement Program-New Orleans Aviation Board; 93.914 - HIV Emergency Relief Project Grant-Ryan White; 97.008 - Urban Areas Security Initiatives; 97.030 - Special Community Disaster Loans; 97.036 Emergency Management-State and Local Assistance

Federal Grantor Agency(ies): U. S. Department of Housing and Urban Development; U.S. Department of Justice; U.S. Department of Labor; U.S. Department of Transportation; U.S. Department of Health and Human Services; U.S. Department of Homeland security

Status of Finding (check one):

Fully Corrected ☒ X

Not Corrected _____

Partially Corrected _____

No Further Action Needed _____

Change of Corrective Action _____

(See OMB A-133 Section 315(b)(4))

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

The report was submitted in December of 2007. In the future, the Management of the City of

New Orleans will follow established procedures to ensure compliance with OMB Circular A-133.

Preparer's Signature:

Julie Schramm Harris
504 658 4961

Phone Number:

SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS

City of New Orleans
For the Year Ended December 31, 2007

Finding Title: Subrecipient Monitoring

Reference Number(s): 2006-05

(from attached schedule of findings, may include more than one)

Initial Year of Finding: 2005

Amount of Questioned Costs in Finding: \$ -0-

Status of Questioned Costs (check one): Resolved _____ Unresolved: _____ N/A ☒

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?
Are they still in negotiation?

Not Applicable

Page Number (from Single Audit Report): 37

CFDA Numbers and Program Name(s): 14.218 Community Development Block Grant; 14.221 Urban Development Action Grant-Grantee Loans; 14.221 Community Development Block Grant-Section 108 14.248; 93.914 HIV Emergency Relief Project Grant-Ryan White

Federal Grantor Agency(ies): U.S. Department of Housing and Urban Development; U.S. Department of Health and Human Services

Status of Finding (check one):

Fully Corrected

☒

Not Corrected

Partially Corrected

No Further Action Needed

Change of Corrective Action

{See OMB A-133 Section 315(b)(4)}

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

In 2006, the Management of the City of New Orleans reestablished its independent monitoring of
sub-recipients' fiscal and programmatic activities. Subrecipient monitoring was also conducted
by the City's staff. Management completed all scheduled 2006 monitoring by
December 31, 2007.

Preparer's Signature:

Julie Schwartz Jones

Phone Number:

504 638 4461

SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS

City of New Orleans
For the Year Ended December 31, 2007

Finding Title: Departmental Monitoring

Reference Number(s): 2006-06
(from attached schedule of findings, may include more than one)

Initial Year of Finding: 2005

Amount of Questioned Costs in Finding: \$ -0-

Status of Questioned Costs (check one): Resolved _____ Unresolved: _____ N/A ☒ X

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?
Are they still in negotiation?
Not Applicable

Page Number (from Single Audit Report): 40

CFDA Numbers and Program Name(s): 14.218 - Community Development Block Grant;
17.258 - Workforce Investment Act-Adult; 17.259 - Workforce Investment Act-Youth;
17.260 - Workforce Investment Act-Dislocated Worker; 93.914 - HIV Emergency Relief Project
Grant-Ryan White; 97.008 - Urban Areas Security Initiatives; 97.030 - Special Community
Disaster Loans

Federal Grantor Agency(ies): U. S. Department of Housing and Urban Development; U.S.
Department of Labor; U.S. Department of Health and Human Services; U.S. Department of
Homeland security

Status of Finding (check one):

Fully Corrected	<input checked="" type="checkbox"/> X	Not Corrected	_____
Partially Corrected	_____	No Further Action Needed	_____
Change of Corrective Action	_____	{See OMB A-133 Section 315(b)(4)}	

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

The Management of the City of New Orleans implemented internal control procedures to
monitor departmental programmatic activities.

Preparer's Signature: Judi Schumann Harris

Phone Number: 504 658 4961

SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS

City of New Orleans

For the Year Ended December 31, 2007

Finding Title: Sub-recipient Monitoring

Reference Number(s): 2005-01

(from attached schedule of findings, may include more than one)

Initial Year of Finding: 2005

Amount of Questioned Costs in Finding: \$ -0-

Status of Questioned Costs (check one): Resolved _____ Unresolved: _____ N/A ☒

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?

Are they still in negotiation?

Not Applicable

Page Number (from Single Audit Report): 29

CFDA Numbers and Program Name(s): 14,218 - Community Development Block Grant; 14,221 Urban Development Action Grants-Grantee Loans; 14,239 Home Investment Partnership Program; 14,248 Community Development Block Grant-Section 108 Grantee Loans; 93.914 HIV Emergency Relief Project Grant -Ryan White; 93.926 - Health Start Initiatives-Great Expectations Program.

Federal Grantor Agency(ies): U.S. Department of Housing and Urban Development; U.S. Department of Health and Human Services

Status of Finding (check one):

Fully Corrected ☒

Not Corrected _____

Partially Corrected _____

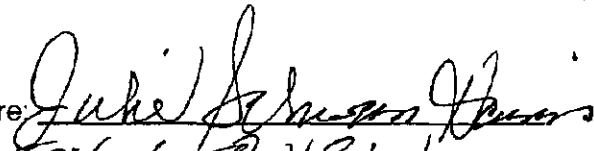
No Further Action Needed _____

Change of Corrective Action _____

(See OMB A-133 Section 315(b)(4))

Description of Status: (Include corrective action planned and anticipated completion date, if applicable):

The CNO has reestablished its independent monitoring of sub-recipients' fiscal and programmatic activities and is fully compliant.

Preparer's Signature: 

Phone Number: 504 658 4961

SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS

City of New Orleans

For the Year Ended December 31, 2007

Finding Title: Departmental Monitoring

Reference Number(s): 2005-02

(from attached schedule of findings, may include more than one)

Initial Year of Finding: 2005

Amount of Questioned Costs in Finding: \$ -0-

Status of Questioned Costs (check one): Resolved _____ Unresolved: _____ N/A ☒

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?
Are they still in negotiation?

Not Applicable

Page Number (from Single Audit Report): 31

CFDA Numbers and Program Name(s): 10.557 Special Supplemental Nutrition Program for Women Infants and Children; 14.218 – Community Development Block Grant; 14.239 Home Investment Partnership Program; 17.258 Workforce Investment Act-Adult; 17.259 Workforce Investment Act-Youth; 17.260 Workforce Investment Act-Dislocate Worker; 93.914 HIV Emergency Relief Project Grant-Ryan White; 93.926 Healthy Start Initiative-Great Expectations Program; 97.030 Special Community Disaster Loans; 97.036 Emergency Management-State and Local Assistance.

Federal Grantor Agency(ies): U.S. Department of Agriculture; U.S. Department of Housing and Urban Development; U.S. Department of Labor; U.S. Department of Health and Human Services; U.S. Department of Homeland Security.

Status of Finding (check one):

Fully Corrected _____

Partially Corrected X

Change of Corrective Action _____

Not Corrected _____

No Further Action Needed _____

(See OMB A-133 Section 315(b)(4))

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

The Management of the City of New Orleans has implemented internal controls to monitor
departmental programmatic activities.

Preparer's Signature: Julie Schwan-Harris

Phone Number: 504 658 4961

SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS

City of New Orleans

For the Year Ended December 31, 2007

Finding Title: Davis-Bacon Act

Reference Number(s): 2005-03

(from attached schedule of findings, may include more than one)

Initial Year of Finding: 1998

Amount of Questioned Costs in Finding: \$ -0-

Status of Questioned Costs (check one): Resolved _____ Unresolved: _____ N/A ☒

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?

Are they still in negotiation?

Not Applicable

Page Number (from Single Audit Report): 34

CFDA Numbers and Program Name(s): 14.218 – Community Development Block Grant;
14.239 Home Investment Partnership Program.

Federal Grantor Agency(ies): U.S. Department of Housing and Urban Development

Status of Finding (check one):

Fully Corrected _____

Partially Corrected ☒

Change of Corrective Action _____

Not Corrected _____

No Further Action Needed _____

{See OMB A-133 Section 315(b)(4)}

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

The management of the CNO has developed and implemented formal procedures for
monitoring contractors for compliance with the Davis-Bacon Act and will adhere to the
established procedures and strengthen internal control with regard to tracking construction
activities subject to the provisions of the act.

Preparer's Signature: Jubie Schuman Harnett

Phone Number: 504 658 4961

SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS

City of New Orleans

For the Year Ended December 31, 2007

Finding Title: Eligibility

Reference Number(s): 2005-04

(from attached schedule of findings, may include more than one)

Initial Year of Finding: 2001

Amount of Questioned Costs in Finding: \$ -0-

Status of Questioned Costs (check one): Resolved _____ Unresolved: _____ N/A ☒

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?
Are they still in negotiation?

Not Applicable

Page Number (from Single Audit Report): 36

CFDA Numbers and Program Name(s): 10.557 – Special Supplemental Nutrition Program For Women, Infants and Children; 14.239

Federal Grantor Agency(ies): U.S. Department of Agriculture

Status of Finding (check one):

Fully Corrected ☒

Not Corrected _____

Partially Corrected _____

No Further Action Needed _____

Change of Corrective Action _____

(See OMB A-133 Section 315(b)(4))

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

Eligibility issues related to the WIC program has been resolved. The Management of the City
of New Orleans will continue to use paper records on participants. Management will also
utilize the State web based computer system called "PHAME" to further protect participants'
eligibility records from being destroyed in the event of a disaster.

Preparer's Signature: Julie Schwann Harris

Phone Number: 504 658 4961

SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS

City of New Orleans

For the Year Ended December 31, 2007

Finding Title: Matching

Reference Number(s): 2005-05

(from attached schedule of findings, may include more than one)

Initial Year of Finding: 1998

Amount of Questioned Costs in Finding: \$ 539,264.00

Status of Questioned Costs (check one): Resolved X Unresolved: N/A X

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?
Are they still in negotiation?

The Management of the City of New Orleans has confirmed eligible match.

Page Number (from Single Audit Report): 38

CFDA Numbers and Program Name(s): 14.239 – Home Investment Partnership Program

Federal Grantor Agency(ies): U.S. Department of Housing and Urban Development.

Status of Finding (check one):

Fully Corrected X

Not Corrected

Partially Corrected

No Further Action Needed

Change of Corrective Action

(See OMB A-133 Section 315(b)(4))

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

The Management of the City of New Orleans has confirmed eligible match. General funds were used for match.

Preparer's Signature:

Julie Schwan Harris

Phone Number:

504 658 4961

SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS

City of New Orleans

For the Year Ended December 31, 2007

Finding Title: Earmarking

Reference Number(s): 2005-06

(from attached schedule of findings, may include more than one)

Initial Year of Finding: 2001

Amount of Questioned Costs in Finding: \$ -0-

Status of Questioned Costs (check one): Resolved _____ Unresolved: _____ N/A X

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?
Are they still in negotiation?

Page Number (from Single Audit Report): 40

CFDA Numbers and Program Name(s): 93.914 HIV Emergency Relief..

Federal Grantor Agency(ies): U.S. Department of Health and Human Services.

Status of Finding (check one):

Fully Corrected ☒ X

Not Corrected

Partially Corrected _____

No Further Action Needed _____

Change of Corrective Action _____

{See OMB A-133 Section 315(b)(4)}

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

The AIDS statistics are provided to the CNO by the State.

Preparer's Signature:

Phone Number:

Jubie Schumacher Harris
504 658 4961

SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS

City of New Orleans

For the Year Ended December 31, 2007

Finding Title: Earmarking

Reference Number(s): 2005-07

(from attached schedule of findings, may include more than one)

Initial Year of Finding: 2005

Amount of Questioned Costs in Finding: \$ -0-

Status of Questioned Costs (check one): Resolved _____ Unresolved: _____ N/A ☒ X

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?
Are they still in negotiation?

Not Applicable

Page Number (from Single Audit Report): 42

CFDA Numbers and Program Name(s): 17.259 Workforce Investment Act - Youth

Federal Grantor Agency(ies): U.S. Department of Labor

Status of Finding (check one):

Fully Corrected _____

Not Corrected _____

Partially Corrected _____

No Further Action Needed ☒ X

Change of Corrective Action _____

{See OMB A-133 Section 315(b)(4)}

Description of Status: (Include corrective action planned and anticipated completion date, if applicable):

This finding was resolved with the State Department of Labor.

Preparer's Signature: Julie Schumann Harris

Phone Number: 504 658 4961

SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS

City of New Orleans

For the Year Ended December 31, 2007

Finding Title: Reporting

Reference Number(s): 2005-08

(from attached schedule of findings, may include more than one)

Initial Year of Finding: 2005

Amount of Questioned Costs in Finding: \$ -0-

Status of Questioned Costs (check one): Resolved _____ Unresolved: _____ N/A ☒

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?
Are they still in negotiation?

Not Applicable

Page Number (from Single Audit Report): 44

CFDA Numbers and Program Name(s): 10.557 Special Supplemental Nutrition Program for Women Infants and Children; 14.218 - Community Development Block Grant; 14.221 Urban Development Action Grants-Grantee Loans; 14.239 Home Investment Partnership Program; 14.248 Community Development Block Grant-Section 108 Grantee Loans; 17.258 Workforce Investment Act-Adult; 17.259 Workforce Investment Act-Youth; 17.260 Workforce Investment Act-Dislocate Worker; 93.914 HIV Emergency Relief Project Grant -Ryan White; 93.926 - Health Start Initiatives-Great Expectations Program; 97.030 Special Community Disaster Loans; 97.036 Emergency Management-state and Local Assistance.

Federal Grantor Agency(ies): U.S. Department of Agriculture; U.S. Department of Housing and Urban Development; U.S. Department of Labor; U.S. Department of Health and Human Services; U.S. Department of Homeland Security

Status of Finding (check one):

Fully Corrected _____

Partially Corrected _____

Change of Corrective Action _____

Not Corrected _____

No Further Action Needed ☒

(See OMB A-133 Section 315(b)(4))

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

Although it was late, the Management of the City of New Orleans submitted the completed data collection form and the single audit reporting package to the Legislative Auditor's office.

Preparer's Signature:

Julie Schramm Harris

Phone Number:

504 658 4961

SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS

City of New Orleans

For the Year Ended December 31, 2007

Finding Title: Sub-recipient Monitoring

Reference Number(s): 2005-09

(from attached schedule of findings, may include more than one)

Initial Year of Finding: 2005

Amount of Questioned Costs in Finding: \$ -0-

Status of Questioned Costs (check one): Resolved _____ Unresolved: _____ N/A ☒

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?
Are they still in negotiation?

Not Applicable

Page Number (from Single Audit Report): 47

CFDA Numbers and Program Name(s): CFDA Numbers and Program Name(s): 14,218 – Community Development Block Grant; 14,221 Urban Development Action Grants-Grantee Loans; 14,239 Home Investment Partnership Program; 14,248 Community Development Block Grant-Section 108 Grantee Loans; 93,914 HIV Emergency Relief Project Grant –Ryan White; 93,926 – Health Start Initiatives-Great Expectations Program.

Federal Grantor Agency(ies): U.S. Department of Housing and Urban Development; U.S. Department of Health and Human Services

Status of Finding (check one):

Fully Corrected ☒

Not Corrected _____

Partially Corrected _____

No Further Action Needed _____

Change of Corrective Action _____

(See OMB A-133 Section 315(b)(4))

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

The CNO has reestablished its independent monitoring of sub-recipients' fiscal and programmatic activities and is fully compliant.

Preparer's Signature:

Jubel Schram Harris

Phone Number:

504 658 4961

SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS

City of New Orleans

For the Year Ended December 31, 2007

Finding Title: Departmental Monitoring

Reference Number(s): 2005-10

(from attached schedule of findings, may include more than one)

Initial Year of Finding: 2005

Amount of Questioned Costs in Finding: \$ -0-

Status of Questioned Costs (check one): Resolved _____ Unresolved: _____ N/A ☒

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?
Are they still in negotiation?

Not Applicable

Page Number (from Single Audit Report): 50

CFDA Numbers and Program Name(s): 10.557 Special Supplemental Nutrition Program for Women Infants and Children; 14.218 - Community Development Block Grant; 14.239 Home Investment Partnership Program; 17.258 Workforce Investment Act-Adult; 17.259 Workforce Investment Act-Youth; 17.260 Workforce Investment Act-Dislocate Worker; 93.914 HIV Emergency Relief Project Grant-Ryan White; 93.926 Healthy Start Initiative-Great Expectations Program; 97.030 Special Community Disaster Loans; 97.036 Emergency Management-State and Local Assistance.

Federal Grantor Agency(ies): U.S. Department of Agriculture; U.S. Department of Housing and Urban Development; U.S. Department of Labor; U.S. Department of Health and Human Services; U.S. Department of Homeland Security.

Status of Finding (check one):

Fully Corrected

☒

Not Corrected

Partially Corrected

No Further Action Needed

Change of Corrective Action

(See OMB A-133 Section 315(b)(4))

Description of Status: (Include corrective action planned and anticipated completion date, if applicable):

The Management of the City of New Orleans has implemented internal controls to monitor
departmental programmatic activities.

Preparer's Signature:

Julie Schumann

Phone Number:

504 658 4961

SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS

City of New Orleans

For the Year Ended December 31, 2007

Finding Title: Other Monitoring

Reference Number(s): 2005-11

(from attached schedule of findings, may include more than one)

Initial Year of Finding: 2004

Amount of Questioned Costs in Finding: \$ -0-

Status of Questioned Costs (check one): Resolved _____ Unresolved: _____ N/A X

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?
Are they still in negotiation?

Page Number (from Single Audit Report): 54

CFDA Numbers and Program Name(s): 14.218 Community Development Block Grant; 14.239
- Home Investment Partnership Program; 94.914 HIV Emergency Relief Project Grant-Ryan
White

Federal Grantor Agency(ies): U.S. Department of Housing and Urban Development; U.S.
Department of Health and Human Services

Status of Finding (check one):

Fully Corrected _____

Partially Corrected _____

Change of Corrective Action _____

Not Corrected _____

No Further Action Needed _____

(See OMB A-133 Section 315(b)(4))

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

The management of the City of New Orleans is continuing to pursue receipt of delinquent
audit reports.

Preparer's Signature:

Phone Number:

Jodie Schuman Harris
504 658 4961

SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS

City of New Orleans

For the Year Ended December 31, 2007

Finding Title: Special Test and Provisions – On-Site Inspections

Reference Number(s): 2005-12

(from attached schedule of findings, may include more than one)

Initial Year of Finding: 1999

Amount of Questioned Costs in Finding: \$ -0-

Status of Questioned Costs (check one): Resolved _____ Unresolved: _____ N/A ☒ X

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?
Are they still in negotiation?

Page Number (from Single Audit Report): 56

CFDA Numbers and Program Name(s): 14.239 – Home Investment Partnership Program

Federal Grantor Agency(ies): U.S. Department of Housing and Urban Development.

Status of Finding (check one):

Fully Corrected _____

Partially Corrected ☒ X _____

Change of Corrective Action _____

Not Corrected _____

No Further Action Needed _____

(See OMB A-133 Section 315(b)(4))

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

The CNO has not completed all required site-inspections.

Preparer's Signature:

Julie Schwan Harris

Phone Number:

504 658 4961

SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS

City of New Orleans

For the Year Ended December 31, 2007

Finding Title: Cost Allocation

Reference Number(s): 2004-01 (from attached schedule of findings, may include more than one)

Initial Year of Finding: 2004

Amount of Questioned Costs in Finding: \$ -0-

Status of Questioned Costs (check one): Resolved _____ Unresolved: _____ N/A ☒

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?
Are they still in negotiation?
Not Applicable

Page Number (from Single Audit Report): 39

CFDA Numbers and Program Name(s): 14.218 – Community Development Block Grant;
14.239 – Home Investment Partnership Program

Federal Grantor Agency(ies): U.S. Department of Housing and Urban Development

Status of Finding (check one):

Fully Corrected ☒

Not Corrected _____

Partially Corrected _____

No Further Action Needed _____

Change of Corrective Action _____

{See OMB A-133 Section 315(b)(4)}

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

The management of the CNO has implemented steps to correct the situation and
implemented procedures to ensure compliance in the future.

Preparer's Signature

Julie Johnson Harris

Phone Number:

504.658 4961

SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS

City of New Orleans

For the Year Ended December 31, 2007

Finding Title: Cash Management

Reference Number(s): 2004-02 (from attached schedule of findings, may include more than one)

Initial Year of Finding: 2004

Amount of Questioned Costs in Finding: \$ -0-

Status of Questioned Costs (check one): Resolved _____ Unresolved: _____ N/A ☒ X

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?

Are they still in negotiation?

Not Applicable

Page Number (from Single Audit Report): 41

CFDA Numbers and Program Name(s): 14.239 - Home Investment Partnership Program

Federal Grantor Agency(ies): U.S. Department of Housing and Urban Development

Status of Finding (check one):

Fully Corrected ☒ X

Not Corrected _____

Partially Corrected _____

No Further Action Needed _____

Change of Corrective Action _____

(See OMB A-133 Section 315(b)(4))

Description of Status: (Include corrective action planned and anticipated completion date, if applicable):

The management of the CNO has implemented steps to correct the situation and
implemented procedures to ensure compliance in the future.

Preparer's Signature:

Julie Schumann Harris

Phone Number:

504 658 4961

SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS

City of New Orleans

For the Year Ended December 31, 2007

Finding Title: Davis-Bacon Act

Reference Number(s): 2004-03 (from attached schedule of findings, may include more than one)

Initial Year of Finding: 1998

Amount of Questioned Costs in Finding: \$ -0-

Status of Questioned Costs (check one): Resolved _____ Unresolved: _____ N/A X

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?

Are they still in negotiation?

Not Applicable

Page Number (from Single Audit Report): 43

CFDA Numbers and Program Name(s): 14.218 - Community Development Block Grant;
14.239 - Home Investment Partnership Program

Federal Grantor Agency(ies): U.S. Department of Housing and Urban Development

Status of Finding (check one):

Fully Corrected _____
Partially Corrected X
Change of Corrective Action _____

Not Corrected _____
No Further Action Needed _____
(See OMB A-133 Section 315(b)(4))

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

The management of the CNO is adhering to established procedures and have strengthened internal controls with regard to tracking construction activities subject to the provisions of the Davis Bacon Act and monitoring contractors and/or subcontractors for compliance with the Davis -Bacon Act.

Preparer's Signature:

Julie Schumann Harris

Phone Number:

504 658 4961

SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS

City of New Orleans

For the Year Ended December 31, 2007

Finding Title: Eligibility

Reference Number(s): 2004-04 (from attached schedule of findings, may include more than one)

Initial Year of Finding: 1999

Amount of Questioned Costs in Finding: \$ -0-

Status of Questioned Costs (check one): Resolved _____ Unresolved: _____ N/A ☒

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?

Are they still in negotiation?

Not Applicable

Page Number (from Single Audit Report): 45

CFDA Numbers and Program Name(s): 14.239 - Home Investment Partnership Program

Federal Grantor Agency(ies): U.S. Department of Housing and Urban Development

Status of Finding (check one):

Fully Corrected ☒

Not Corrected _____

Partially Corrected _____

No Further Action Needed _____

Change of Corrective Action _____

(See OMB A-133 Section 315(b)(4))

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

The management of the CNO is adhering to established procedures.

Preparer's Signature:

Quil Schumann Harris

Phone Number:

504 658 4961

SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS

City of New Orleans

For the Year Ended December 31, 2007

Finding Title: Equipment and Real Property Management

Reference Number(s): 2004-05 (from attached schedule of findings, may include more than one)

Initial Year of Finding: 2004

Amount of Questioned Costs in Finding: \$ -0-

Status of Questioned Costs (check one): Resolved _____ Unresolved: _____ N/A ☒

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?
Are they still in negotiation?

Not Applicable

Page Number (from Single Audit Report): 47

CFDA Numbers and Program Name(s): 14.218 - Community Development Block Grant
14.239 - Home Investment Partnership Program

Federal Grantor Agency(ies): U.S. Department of Housing and Urban Development

Status of Finding (check one):

Fully Corrected ☒
Partially Corrected _____
Change of Corrective Action _____

Not Corrected _____
No Further Action Needed _____
(See OMB A-133 Section 315(b)(4))

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

The management of the CNO has corrected the situation and
implemented procedures to ensure compliance in the future.

Preparer's Signature: Julie Schuman Harris

Phone Number: 504 658 4961

SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS

City of New Orleans

For the Year Ended December 31, 2007

Finding Title: Matching

Reference Number(s): 2004-06 (from attached schedule of findings, may include more than one)

Initial Year of Finding: 1998

Amount of Questioned Costs in Finding: \$ 786,391

Status of Questioned Costs (check one): Resolved _____ Unresolved: X N/A X

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?

Are they still in negotiation?

Still in negotiation.

Page Number (from Single Audit Report): 50

CFDA Numbers and Program Name(s): 14.239 - Home Investment Partnership Program

Federal Grantor Agency(ies): U.S. Department of Housing and Urban Development

Status of Finding (check one):

Fully Corrected X

Not Corrected _____

Partially Corrected _____

No Further Action Needed _____

Change of Corrective Action _____

{See OMB A-133 Section 315(b)(4)}

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

The management of the CNO has documentation to substantiate the above questioned Costs for the HOME Match requirements.

Preparer's Signature:

Julie Schram Harris

Phone Number:

504 658 4461

SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS

City of New Orleans

For the Year Ended December 31, 2007

Finding Title: Earmarking

Reference Number(s): 2004-07 (from attached schedule of findings, may include more than one)

Initial Year of Finding: 2000

Amount of Questioned Costs in Finding: \$ 39,539

Status of Questioned Costs (check one): Resolved _____ Unresolved: X N/A X

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?
Are they still in negotiation?
Still in negotiation.

Page Number (from Single Audit Report): 52

CFDA Numbers and Program Name(s): 14.239 - Home Investment Partnership Program

Federal Grantor Agency(ies): U.S. Department of Housing and Urban Development

Status of Finding (check one):

Fully Corrected X

Not Corrected

Partially Corrected

No Further Action Needed

Change of Corrective Action

(See OMB A-133 Section 315(b)(4))

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

The management of the CNO has resolved this situation.

Preparer's Signature:

Jubel Schwartz Harris

Phone Number:

504 658 4461

SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS

City of New Orleans

For the Year Ended December 31, 2007

Finding Title: Earmarking

Reference Number(s): 2004-08 (from attached schedule of findings, may include more than one)

Initial Year of Finding: 2004

Amount of Questioned Costs in Finding: \$ -0-

Status of Questioned Costs (check one): Resolved _____ Unresolved: _____ N/A ☒

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?
Are they still in negotiation?

Page Number (from Single Audit Report): 54

CFDA Numbers and Program Name(s): 14.239 – HIV Emergency Relief (Ryan White)

Federal Grantor Agency(ies): U.S. Department of Health and Human Services

Status of Finding (check one):

Fully Corrected ☒

Not Corrected _____

Partially Corrected _____

No Further Action Needed _____

Change of Corrective Action _____

(See OMB A-133 Section 315(b)(4))

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

The management of the CNO has corrected the situation and
implemented procedures to ensure compliance in the future.

Preparer's Signature: Julie Schuman Horne

Phone Number: 504 658 4961

SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS

City of New Orleans

For the Year Ended December 31, 2007

Finding Title: Procurement

Reference Number(s): 2004-09 (from attached schedule of findings, may include more than one)

Initial Year of Finding: 2004

Amount of Questioned Costs in Finding: \$ -0-

Status of Questioned Costs (check one): Resolved _____ Unresolved: _____ N/A ☒

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?
Are they still in negotiation?

Page Number (from Single Audit Report): 56

CFDA Numbers and Program Name(s): 14.218 – Community Development Block Grant

Federal Grantor Agency(ies): U.S. Department of Housing and Urban Development

Status of Finding (check one):

Fully Corrected ☒

Partially Corrected _____

Change of Corrective Action _____

Not Corrected _____

No Further Action Needed _____

{See OMB A-133 Section 315(b)(4)}

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

The management of the CNO has corrected the situation and
implemented procedures to ensure compliance in the future.

Preparer's Signature:

Jane Schwan Harris

Phone Number:

504-658 4961

SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS

City of New Orleans

For the Year Ended December 31, 2007

Finding Title: Financial Reporting

Reference Number(s): 2004-10 (from attached schedule of findings, may include more than one)

Initial Year of Finding: 1999

Amount of Questioned Costs in Finding: \$ -0-

Status of Questioned Costs (check one): Resolved _____ Unresolved: _____ N/A ☒

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?
Are they still in negotiation?

Page Number (from Single Audit Report): 58

CFDA Numbers and Program Name(s): 14.218 – Community Development Block Grant

Federal Grantor Agency(ies): U.S. Department of Housing and Urban Development

Status of Finding (check one):

Fully Corrected ☒

Not Corrected _____

Partially Corrected _____

No Further Action Needed _____

Change of Corrective Action _____

{See OMB A-133 Section 315(b)(4)}

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

The management of the CNO established a work committee that corrected over 600 records
in the IDIS system. Based upon HUD- Washington's office review of our revised data we feel
that our reporting and /or recording systems are now in a compatible state.

Preparer's Signature:

Julie Schwarm Harris

Phone Number:

504 658-4961

SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS

City of New Orleans

For the Year Ended December 31, 2007

Finding Title: Reporting

Reference Number(s): 2004-11 (from attached schedule of findings, may include more than one)

Initial Year of Finding: 2004

Amount of Questioned Costs in Finding: \$ -0-

Status of Questioned Costs (check one): Resolved _____ Unresolved: _____ N/A ☒

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?
Are they still in negotiation?

Page Number (from Single Audit Report): 60

CFDA Numbers and Program Name(s): 10.557 – Special Supplemental Nutrition Program for Women, Infants and Children (WIC)

Federal Grantor Agency(ies): U.S. Department of Agriculture

Status of Finding (check one):

Fully Corrected _____

Partially Corrected _____

Change of Corrective Action _____

Not Corrected _____

No Further Action Needed ☒

(See OMB A-133 Section 315(b)(4))

Description of Status: (Include corrective action planned and anticipated completion date, if applicable):

The management of the CNO disagrees with the Independent Auditor. The WIC program is a State of Louisiana pass-through program that is monitored by the State. The State has a data base to specifically identify WIC participants for whom reimbursement is being requested.

Preparer's Signature:

Julie Schwan Harris

Phone Number:

504 658 4961

SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS

City of New Orleans

For the Year Ended December 31, 2007

Finding Title: Monitoring

Reference Number(s): 2004-12 (from attached schedule of findings, may include more than one)

Initial Year of Finding: 2004

Amount of Questioned Costs in Finding: \$ -0-

Status of Questioned Costs (check one): Resolved _____ Unresolved: _____ N/A ☒ X

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?
Are they still in negotiation?

Page Number (from Single Audit Report): 62

CFDA Numbers and Program Name(s): 14.218 - Community Development Block Grants;
14.239 Home Investment Partnership Program

Federal Grantor Agency(ies): U.S. Department of Housing and Urban Development

Status of Finding (check one):

Fully Corrected _____

Partially Corrected ☒ X

Change of Corrective Action _____

Not Corrected _____

No Further Action Needed _____

(See OMB A-133 Section 315(b)(4))

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

The Management of the CNO will ensure that deficiencies in all sub-recipient contracts and all delinquent audit reports obtained.

Preparer's Signature: Julie Ann Harris

Phone Number: 504 658 4961

SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS

City of New Orleans

For the Year Ended December 31, 2007

Finding Title: Monitoring

Reference Number(s): 2004-13 (from attached schedule of findings, may include more than one)

Initial Year of Finding: 2004

Amount of Questioned Costs in Finding: \$ -0-

Status of Questioned Costs (check one): Resolved _____ Unresolved: _____ N/A ☒

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?
Are they still in negotiation?

Page Number (from Single Audit Report): 64

CFDA Numbers and Program Name(s): 93.914 – HIV Emergency Relief (Ryan White)

Federal Grantor Agency(ies): U.S. Department of Health and Human Services

Status of Finding (check one):

Fully Corrected _____

Partially Corrected ☒

Change of Corrective Action _____

Not Corrected _____

No Further Action Needed _____

{See OMB A-133 Section 315(b)(4)}

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

The management of the CNO will ensure that deficiencies in all sub-recipient contracts and all delinquent audit reports are obtained.

Preparer's Signature:

Julie Schuman Harris

Phone Number:

504 658 4961

SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS

City of New Orleans

For the Year Ended December 31, 2007

Finding Title: Special Tests and Provisions- On Site Inspections

Reference Number(s): 2004-14 (from attached schedule of findings, may include more than one)

Initial Year of Finding: 1999

Amount of Questioned Costs in Finding: \$ -0-

Status of Questioned Costs (check one): Resolved _____ Unresolved: _____ N/A ☒ X

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?
Are they still in negotiation?

Page Number (from Single Audit Report): 67

CFDA Numbers and Program Name(s): 14.239 – Home Investment Partnership Program

Federal Grantor Agency(ies): U.S. Department of Housing and Urban Development

Status of Finding (check one):

Fully Corrected

Partially Corrected

Change of Corrective Action

☒ X

Not Corrected

No Further Action Needed

(See OMB A-133 Section 315(b)(4))

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

The management of the CNO has not completed all required site inspections.

Preparer's Signature:

Julie Schuman Horne

Phone Number:

504-658 4961

CITY OF ORLEANS
CORRECTIVE ACTION PLAN-INDEPENDENT AUDITOR'S COMMENTS TO MANAGEMENT
DECEMBER 31, 2007

MANAGEMENT COMMENTS	PROPOSED CORRECTIVE ACTION	ANTICIPATED COMPLETION DATE	CONTACT PERSON	FEDERAL/PASS THROUGH AGENCY CONTACT
2007-MLC-01-Grant Administration <p>The Independent Auditors noted that due to various circumstances surrounding the devastating effects of Hurricanes Katrina and Rita, the City has experienced an overall reduction in staff in those departments who have direct responsibility for the administration of federal grants. The reduction in staff, in conjunction with the increase in Federal awards to assist the City in its recovery efforts, could possibly impact the City's ability to administer these numerous Federal awards and grants during periods subsequent to the Hurricanes.</p>	<p>The Management of the City of New Orleans is assessing its current staffing levels and rehiring staff as needed.</p>	<p>No further action needed</p>	<p>Dr. Brenda Hatfield, CAO</p>	<p>DOA HUD DOL DHHS DHS</p>
2007-MLC-02-Federal Awards Inventory <p>The Independent Auditors noted that as the City continues its recovery efforts from the devastating effects of Hurricanes Katrina and Rita, the City's inventory of Federal awards and the expenditures thereof continues to grow. As a result it becomes more and more challenging to ensure that all Federal awards and the expenditures related thereto are properly included in the City's annual Schedule of Expenditures of Federal Awards.</p>	<p>The Management of the City of New Orleans continues to review its procedures for the accumulation of data related to expenditures of Federal awards to ensure the expenditures are properly identified and classified in the Schedule of Expenditures in accordance with regulations.</p>	<p>No further action needed</p>	<p>Reginald Zeno, Director of Finance</p>	<p>DOA HUD DOL DHHS DHS</p>

MANAGEMENT COMMENTS	PROPOSED CORRECTIVE ACTION	ANTICIPATED COMPLETION DATE	CONTACT PERSON	FEDERAL/PASS THROUGH AGENCY CONTACT
2007-MLC-03-Report Submission The Independent Auditors noted that the City did not meet the deadline for submission of the Single Audit Report.	The Management of the City of New Orleans was not timely in submission of the Single Audit Report. In the future the Management of the City of New Orleans will follow established procedures to avoid late submission.	No further action needed	Reginald Zeno, Director of Finance	DOA HUD DOL DHHS DHS

**CITY OF NEW ORLEANS
CORRECTIVE ACTION PLAN - AUDIT FINDINGS
DECEMBER 31, 2007**

AUDIT FINDINGS	PROPOSED CORRECTIVE ACTION	ANTICIPATED COMPLETION DATE	CONTACT PERSON	FEDERAL/PASS THROUGH AGENCY CONTACTED
<p>2007-01 Cash Management</p> <p>The Independent Auditors noted that the City of New Orleans did not keep track of the interest being earned on advances received under the FEMA -- State and Local Assistance grant.</p>	<p>The management of the City of New Orleans has determined that interest was earned during 2007 and has calculated the amount owed to FEMA and will remit said amount. In the future, interest will be tracked on a quarterly basis so that the interest owed to FEMA may be remitted on a timely basis as required by Federal regulations.</p>	No further action needed	Reginald Zeno, Director of Finance	DHS
<p>2004-02 DAVIS -BACON ACT</p> <p>The Independent Auditors noted that management of the City of New Orleans had not fully implemented the monitoring of construction contracts for compliance for Davis-Bacon Act.</p>	<p>The management of the City of New Orleans has developed formal procedures for monitoring contractors and subcontractors for compliance with the Davis-Bacon Act and will adhere to established procedures and strengthen internal control with regard to tracking construction activities subject to the provisions of the Act.</p>	No further action needed	Dr. Edward Blakely Executive Director	HUD
<p>2007-03 Earmarking</p> <p>The Independent Auditors noted that the City of New Orleans public service expenditures were approximately twenty-four percent (24%) of CDBG expenditures which exceeded the fifteen percent (15%) threshold resulting in questioned cost of \$ 1,248,953.</p>	<p>The management of the City of New Orleans disagrees with the Independent Auditors. The \$ 1,248,953 was expended for the One New Orleans Road Home Fast Track Program which was designed for Housing Rehab not Public Services. Documentation will be provided to the Independent Auditor.</p>	June 30, 2008	Dr. Edward Blakely Executive Director	HUD

AUDIT FINDINGS	PROPOSED CORRECTIVE ACTION	ANTICIPATED COMPLETION DATE	CONTACT PERSON	FEDERAL/PASS THROUGH AGENCY CONTACTED
2007-04 Reporting The Independent Auditors noted un-reconciled differences between CDBG expenditures and draw-downs per IDIS versus CDBG expenditures and draw-downs per accounting records.	The management of the City of New Orleans will reconcile its records to reflect those of the Integrated Disbursement and Information System (IDIS) report of CDBG draw-downs.	June 30, 2008	Reginald Zeno, Director of Finance	HUD
2007-05 Reporting The Independent Auditors were unable to agree expenditure financial data in the Annual Progress Report to the accounting records or other supporting documentation.	The management of the City of New Orleans will ensure that the financial data contained in the HUD Form 40110 - Annual Progress Report will be prepared from or reconciled to the applicable accounting records.	July 31, 2008	Dr. Edward Blakely Executive Director	HUD
2006-06 Sub-recipient Monitoring The Independent Auditors noted that the management of the City of New Orleans did not include provisions detailing all the applicable Federal award information in the contractual agreements.	The management of the City of New Orleans will ensure that all the applicable Federal award information is included in all contractual agreements.	July 31, 2008	Dr. Edward Blakely Executive Director	HUD
2006-07 Sub-recipient Monitoring The Independent Auditors noted that the management of the City of New Orleans failed to obtain A-133 audit reports for ten (10) subrecipients.	The management of the City of New Orleans will ensure that all subrecipients receiving Federal funds submit audit reports as required by contractual agreement and federal regulations. However, management disagrees with the Independent Auditors regarding the six (6) subrecipients that received Ryan White funding. Based on a review by management the subrecipients did not expend over the \$500,000 threshold.	Sept 30, 2008	Dr. Edward Blakely Executive Director Dr. Kevin Stephens Director of Health	HUD DHHS

AUDIT FINDINGS	PROPOSED CORRECTIVE ACTION	ANTICIPATED COMPLETION DATE	CONTACT PERSON	FEDERAL/ PASS THROUGH AGENCY CONTACTED
<p>2006-08 Sub-recipient Monitoring</p> <p>The Independent Auditors noted that as majority of the subrecipient monitoring was performed subsequent to the award period and many of the agreed-upon procedures reports were still in draft form.</p>	<p>The management of the City of New Orleans does perform programmatic and fiscal monitoring through a desk review process that are followed-up by field visits conducted by staff and/or Contracted Monitors. We anticipate that all 2007 subrecipients site visits will be completed by the end of August 2008.</p>	<p>No further action needed</p>	<p>Charles R. Winchester, Deputy Director OFSP</p>	<p>HUD DHHS</p>



Member
American Institute of
Certified Public Accountants
Society of Louisiana
Certified Public Accountants

Michael B. Bruno, CPA
Alcide J. Tervalon, Jr., CPA
Waldo J. Moret, Jr., CPA
Paul K. Andoh, Sr., CPA
Joseph A. Akanji, CPA

INDEPENDENT AUDITORS' COMMENTS TO MANAGEMENT

To the Members of the City Council and the
Honorable C. Ray Nagin, Mayor
City of New Orleans
New Orleans, Louisiana

We have audited the Schedule of Expenditures of Federal Awards of the City of New Orleans (the City) for the year ended December 31, 2007 and have issued our report thereon dated June 20, 2008. In planning and performing our audit of the Schedule of Expenditures of Federal Awards, we considered the City's internal control over financial reporting and compliance for the purpose of expressing an opinion of the Schedule of Expenditures of Federal Awards and not to provide assurance on internal control over financial reporting and compliance.

During our audit we became aware of the following matters that are an opportunities for strengthening internal control and operating efficiency.

2007-MLC-01 -- GRANT ADMINISTRATION

During the course of our audit we again observed that due to various circumstances surrounding the devastating effects of Hurricanes Katrina and Rita, the City has experienced an overall reduction in staff in those departments who have direct responsibility for the administration of Federal Grants. This reduction in staff, in conjunction with the increase in Federal awards to assist the City in its recovery efforts, could possibly impact the City's ability to administer these numerous Federal awards and grants during periods subsequent to Hurricane Katrina.

Recommendation

We recommend that the City continue to assess its current staffing levels and evaluate its ability to adequately administer the various Federal programs and grants available to the City and citizens of New Orleans.

INDEPENDENT AUDITORS' COMMENTS TO MANAGEMENT

To the Members of the City Council and the
Honorable C. Ray Nagin, Mayor
City of New Orleans
New Orleans, Louisiana

Page -2-

2007-MLC-02 -- FEDERAL AWARDS INVENTORY

During the course of our audit, we continue to observe, as the City continues its recovery efforts from the devastating effects of Hurricanes Katrina and Rita, the City's inventory of Federal awards and the expenditure thereof continues to grow. As a result it becomes more and more challenging to ensure that all Federal awards (both direct and indirect) and the expenditures related thereto are properly included in the City's annual Schedule of Expenditures of Federal Awards.

Furthermore, in the determination of Federal awards expended, (as specified in OMB Circular A-133, Subpart B, Section .205), expenditures of Federal awards can consist of various forms such as:

"Expenditure/expense transactions associated with grants, cost reimbursement contracts, cooperative agreements and direct appropriations; the disbursement of funds passed through sub-recipients; the use of loan proceeds under loan and loan guarantee programs; the receipt of property; the receipt of surplus property; the receipt or use of program income; the distribution or consumption of food commodities; the disbursement of amounts entitling the non-Federal entity (the City) to an interest subsidy and the period when insurance is in force."

Recommendation

We continue to recommend the management of the City review its procedures for the accumulation of data related to expenditures of Federal awards to ensure the expenditures of Federal awards are properly identified and classified in the Schedule of Expenditures of Federal Awards in accordance with the applicable provisions of OMB Circular A-133.

INDEPENDENT AUDITORS' COMMENTS TO MANAGEMENT

To the Members of the City Council and the
Honorable C. Ray Nagin, Mayor
City of New Orleans
New Orleans, Louisiana

Page -3-

This letter does not affect our report dated June 20, 2008 on the Schedule of Expenditures of Federal Awards of the City of New Orleans. This letter is intended solely for the information and use of the City Council, the Mayor, management, the Louisiana Legislative Auditor and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Louisiana Legislative Auditor as a public document.

Bruno & Tervalon LLP

**BRUNO & TERVALON LLP
CERTIFIED PUBLIC ACCOUNTANTS**

June 20, 2008

SUMMARY SCHEDULE OF PRIOR MANAGEMENT LETTER COMMENTS

City of New Orleans

For the Year Ended December 31, 2007

Comment Title: Procurement

Reference Number(s): MLC-2004-01
(from attached schedule of findings, may include more than one)

Initial Year of Comment: 2004

Amount of Questioned Costs in Comment: \$ -0-

Status of Questioned Costs (check one): Resolved _____ Unresolved: _____ N/A ☒

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?
Are they still in negotiation?
Not Applicable

Page Number (from Management Letter): 1

CFDA Numbers and Program Name(s): All programs

Federal Grantor Agency(ies): All funding sources

Status of Finding (check one):

Fully Corrected ☒

Not Corrected _____

Partially Corrected _____

No Further Action Needed _____

Change of Corrective Action _____

(See OMB A-133 Section 315(b)(4))

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

The management of the CNO corrected this situation in August 04. In the future the City will
adhere to requirements and specifications included in the bid proposals.

Preparer's Signature:

Julie Schwann Harris

Phone Number:

504 658 4961

SUMMARY SCHEDULE OF PRIOR MANAGEMENT LETTER COMMENTS

City of New Orleans

For the Year Ended December 31, 2007

Comment Title: Community Development Block Grant- Section 108 Loan Guarantee

Reference Number(s): MLC-2004-02
(from attached schedule of findings, may include more than one)

Initial Year of Comment: 2004

Amount of Questioned Costs in Comment: \$ -0-

Status of Questioned Costs (check one): Resolved _____ Unresolved: _____ N/A ☒

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?
Are they still in negotiation?
Not Applicable

Page Number (from Management Letter): 1

CFDA Numbers and Program Name(s): 14.248 – Community Development Block Grant –
Section 108 Loan Guarantee

Federal Grantor Agency(ies): U.S. Department of Housing and Urban Development

Status of Finding (check one):

Fully Corrected _____
Partially Corrected _____
Change of Corrective Action _____

Not Corrected _____
No Further Action Needed X
(See OMB A-133 Section 315(b)(4))

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

The management of the CNO is still working on this situation.

Preparer's Signature:

Julie Schwan Harris
504-658-4961

Phone Number:

SUMMARY SCHEDULE OF PRIOR MANAGEMENT LETTER COMMENTS

City of New Orleans

For the Year Ended December 31, 2007

Comment Title: Urban Development Action Grant -Grantee Loans

Reference Number(s): MLC-2004-03

(from attached schedule of findings, may include more than one)

Initial Year of Comment: 2004

Amount of Questioned Costs in Comment: \$ -0-

Status of Questioned Costs (check one): Resolved _____ Unresolved: _____ N/A ☒

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?

Are they still in negotiation?

Not Applicable

Page Number (from Management Letter): 2

CFDA Numbers and Program Name(s): 14.221- Urban Development Action Grant-Grantee Loans

Federal Grantor Agency(ies): U. S. Department of Housing and Urban Development

Status of Finding (check one):

Fully Corrected _____

Partially Corrected _____

Change of Corrective Action _____

Not Corrected _____

No Further Action Needed ☒

[See OMB A-133 Section 315(b)(4)]

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

The Mortgage agreements state that nothing is owed to the City upon sale or refinancing
after fifteen years of living in the residence. Due to City Council's deferrals of payments,
the fifteen year mark has expired and the likelihood of collecting any substantial sum
diminishes each year.

Preparer's Signature: Julie Schumann Harris

Phone Number: 504 1658 4961

SUMMARY SCHEDULE OF PRIOR MANAGEMENT LETTER COMMENTS

City of New Orleans

For the Year Ended December 31, 2007

Comment Title: Grant Administration

Reference Number(s): MLC-2005-01
(from attached schedule of findings, may include more than one)

Initial Year of Comment: 2005

Amount of Questioned Costs in Comment: \$ -0-

Status of Questioned Costs (check one): Resolved _____ Unresolved: _____ N/A ☒

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?
Are they still in negotiation?
Not Applicable

Page Number (from Management Letter): 1

CFDA Numbers and Program Name(s): All Federal Programs
Federal Grantor Agency(ies): All Federal Agencies

Status of Finding (check one):

Fully Corrected _____
Partially Corrected _____
Change of Corrective Action _____

Not Corrected _____
No Further Action Needed ☒
(See OMB A-133 Section 315(b)(4))

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

The management of the CNO is rehiring staff as needed.

Preparer's Signature:

Julie Schwann Harris

Phone Number:

658 4961

SUMMARY SCHEDULE OF PRIOR MANAGEMENT LETTER COMMENTS

City of New Orleans

For the Year Ended December 31, 2007

Comment Title: Federal Awards Inventory

Reference Number(s): MLC-2005-02
(from attached schedule of findings, may include more than one)

Initial Year of Comment: 2005

Amount of Questioned Costs in Comment: \$ -0-

Status of Questioned Costs (check one): Resolved _____ Unresolved: _____ N/A ☒

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?
Are they still in negotiation?
Not Applicable

Page Number (from Management Letter): 2

CFDA Numbers and Program Name(s): All Federal Programs

Federal Grantor Agency(ies): All Federal Agencies

Status of Finding (check one):

Fully Corrected _____

Partially Corrected ☒

Change of Corrective Action _____

Not Corrected _____

No Further Action Needed _____

(See OMB A-133 Section 315(b)(4))

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

The management of the CNO continues to review its procedures for the accumulation of data
related to expenditures of federal awards to ensure the expenditures are properly identified
and classified in the schedule of expenditures in accordance with regulations.

Preparer's Signature:

Phone Number:

Julie Schuman Harris
504 658-4961

SUMMARY SCHEDULE OF PRIOR MANAGEMENT LETTER COMMENTS

City of New Orleans

For the Year Ended December 31, 2007

Comment Title: Equipment and Property Management

Reference Number(s): MLC-2005-03

(from attached schedule of findings, may include more than one)

Initial Year of Comment: 2005

Amount of Questioned Costs in Comment: \$ -0-

Status of Questioned Costs (check one): Resolved _____ Unresolved: _____ N/A ☒

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?
Are they still in negotiation?

Not Applicable

Page Number (from Management Letter): 3

CFDA Numbers and Program Name(s): All Programs

Federal Grantor Agency(ies): All Agencies

Status of Finding (check one):

Fully Corrected _____

Partially Corrected X

Change of Corrective Action _____

Not Corrected _____

No Further Action Needed _____

{See OMB A-133 Section 315(b)(4)}

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

The management of the CNO, with the assistance of an external CPA firm, will ensure that
all equipment acquired with Federal funds is properly documented and recorded in
accordance with Federal regulations. Management has also performed a review of fixed
assets to delete equipment no longer in use.

Preparer's Signature: Julie Schwaner Harris

Phone Number: 504 6584961

SUMMARY SCHEDULE OF PRIOR MANAGEMENT LETTER COMMENTS

City of New Orleans

For the Year Ended December 31, 2007

Comment Title: First-Time Homebuyer Training

Reference Number(s): MLC-2005-04

(from attached schedule of findings, may include more than one)

Initial Year of Comment: 2005

Amount of Questioned Costs in Comment: \$ -0-

Status of Questioned Costs (check one): Resolved _____ Unresolved: _____ N/A ☒

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?
Are they still in negotiation?

Not Applicable

Page Number (from Management Letter): 4

CFDA Numbers and Program Name(s): 14.239 Home Investment Partnership Program;

Federal Grantor Agency(ies): U.S. Department of Housing and Urban Development

Status of Finding (check one):

Fully Corrected ☒

Not Corrected _____

Partially Corrected _____

No Further Action Needed _____

Change of Corrective Action _____

(See OMB A-133 Section 315(b)(4))

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

The management of the CNO has strengthened its internal control to ensure compliance.

Preparer's Signature:

Julie Schwan Harris

Phone Number:

504 658 4961

SUMMARY SCHEDULE OF PRIOR MANAGEMENT LETTER COMMENTS

City of New Orleans

For the Year Ended December 31, 2007

Comment Title: Report Submission

Reference Number(s): MLC-2005-05

(from attached schedule of findings, may include more than one)

Initial Year of Comment: 2005

Amount of Questioned Costs in Comment: \$ -0-

Status of Questioned Costs (check one): Resolved _____ Unresolved: _____ N/A ☒

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?
Are they still in negotiation?

Not Applicable

Page Number (from Management Letter): 4

CFDA Numbers and Program Name(s): All Federal Programs

Federal Grantor Agency(ies): All Federal Agencies

Status of Finding (check one):

Fully Corrected _____

Partially Corrected _____

Change of Corrective Action _____

Not Corrected _____

No Further Action Needed ☒

(See OMB A-133 Section 315(b)(4))

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

The management of the CNO completed audits and submitted them to State Legislative
Auditor's office.

Preparer's Signature: Jodie Schuman Harris

Phone Number: 504 658 4961

SUMMARY SCHEDULE OF PRIOR MANAGEMENT LETTER COMMENTS

City of New Orleans

For the Year Ended December 31, 2007

Comment Title: Grant Administration

Reference Number(s): MLC-2006-01
(from attached schedule of findings, may include more than one)

Initial Year of Comment: 2005

Amount of Questioned Costs in Comment: \$ -0-

Status of Questioned Costs (check one): Resolved _____ Unresolved: _____ N/A ☒

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?
Are they still in negotiation?
Not Applicable

Page Number (from Management Letter): 1

CFDA Numbers and Program Name(s): All Federal Programs
Federal Grantor Agency(ies): All Federal Agencies

Status of Finding (check one):

Fully Corrected _____
Partially Corrected _____
Change of Corrective Action _____

Not Corrected _____
No Further Action Needed ☒
(See OMB A-133 Section 315(b)(4))

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

The management of the CNO is rehiring staff as needed.

Preparer's Signature: Julie Schuyler Harris

Phone Number: 504 658 4961

SUMMARY SCHEDULE OF PRIOR MANAGEMENT LETTER COMMENTS

City of New Orleans

For the Year Ended December 31, 2007

Comment Title: Federal Awards Inventory

Reference Number(s): MLC-2006-02
(from attached schedule of findings, may include more than one)

Initial Year of Comment: 2005

Amount of Questioned Costs in Comment: \$ -0-

Status of Questioned Costs (check one): Resolved _____ Unresolved: _____ N/A X

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?
Are they still in negotiation?
Not Applicable

Page Number (from Management Letter): 2

CFDA Numbers and Program Name(s): All Federal Programs

Federal Grantor Agency(ies): All Federal Agencies

Status of Finding (check one):

Fully Corrected _____
Partially Corrected X
Change of Corrective Action _____

Not Corrected _____
No Further Action Needed _____
(See OMB A-133 Section 315(b)(4))

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

The management of the CNO continues to review its procedures for the accumulation of data
related to expenditures of federal awards to ensure the expenditures are properly identified
and classified in the schedule of expenditures in accordance with regulations.

Preparer's Signature:

Julie Schramm Harris

Phone Number:

504 658 4961

SUMMARY SCHEDULE OF PRIOR MANAGEMENT LETTER COMMENTS

City of New Orleans

For the Year Ended December 31, 2007

Comment Title: Report Submission

Reference Number(s): MLC-2006-03

(from attached schedule of findings, may include more than one)

Initial Year of Comment: 2005

Amount of Questioned Costs in Comment: \$ -0-

Status of Questioned Costs (check one): Resolved _____ Unresolved: _____ N/A ☒

Briefly describe the status of the Questioned Costs. Were they refunded to federal government?
Are they still in negotiation?

Not Applicable

Page Number (from Management Letter): 3

CFDA Numbers and Program Name(s): All Federal Programs

Federal Grantor Agency(ies): All Federal Agencies

Status of Finding (check one):

Fully Corrected _____

Partially Corrected _____

Change of Corrective Action _____

Not Corrected _____

No Further Action Needed ☒

(See OMB A-133 Section 315(b)(4))

Description of Status: (include corrective action planned and anticipated completion date, if applicable):

The management of the CNO completed audits and submitted them to State Legislative
Auditor's office.

Preparer's Signature: Julie Schramm Harris

Phone Number: 504 658 4961